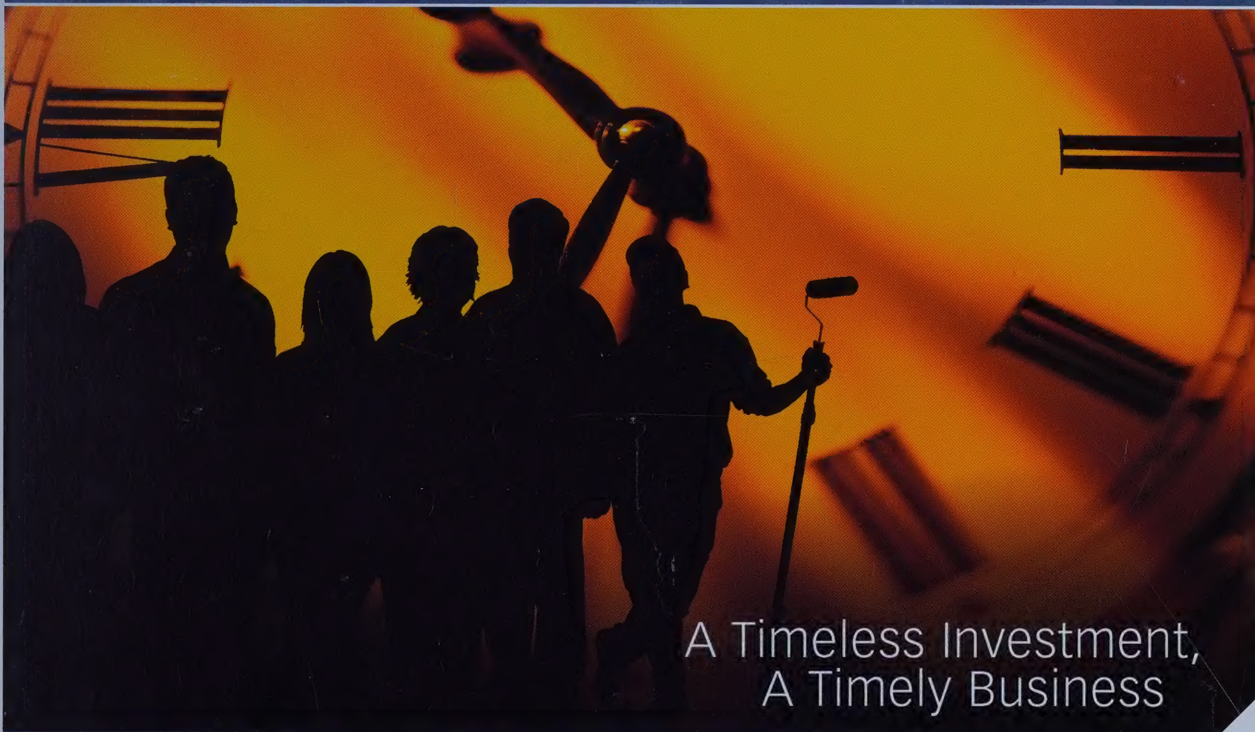

ResREIT
ANNUAL REPORT

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RESIDENTIAL EQUITIES REAL ESTATE INVESTMENT TRUST

ResREIT IS A TIMELESS INVESTMENT
SOLID AND STABLE THROUGH ALL ECONOMIC CLIMATES

ResREIT IS A TIMELY BUSINESS
SUCCESS RESULTING FROM AN ABILITY TO REACT, ADAPT AND IMPROVE

ABOUT OUR COVER

"Quality Living, Quality Investment" has been our mandate since ResREIT was created in 1998. How we continue to achieve this balance – offering unitholder value along with a unique lifestyle choice – is through active asset and property management. As you'll see throughout this annual report, our experienced team of real estate and asset management professionals work together to continually improve the investment, the portfolio of quality properties and the initiatives designed to attract and retain residents – around-the-clock, day-to-day, year after year.

From left to right

PATTI BAKER
PROPERTY MANAGER

FLAVIO VOLPE
MARKETING MANAGER

AMANDA BOUTCHER
SENIOR LEASING SPECIALIST

LAURA HOLLAND
ASSET MANAGER

TOM PENNEY
RESIDENT MANAGER

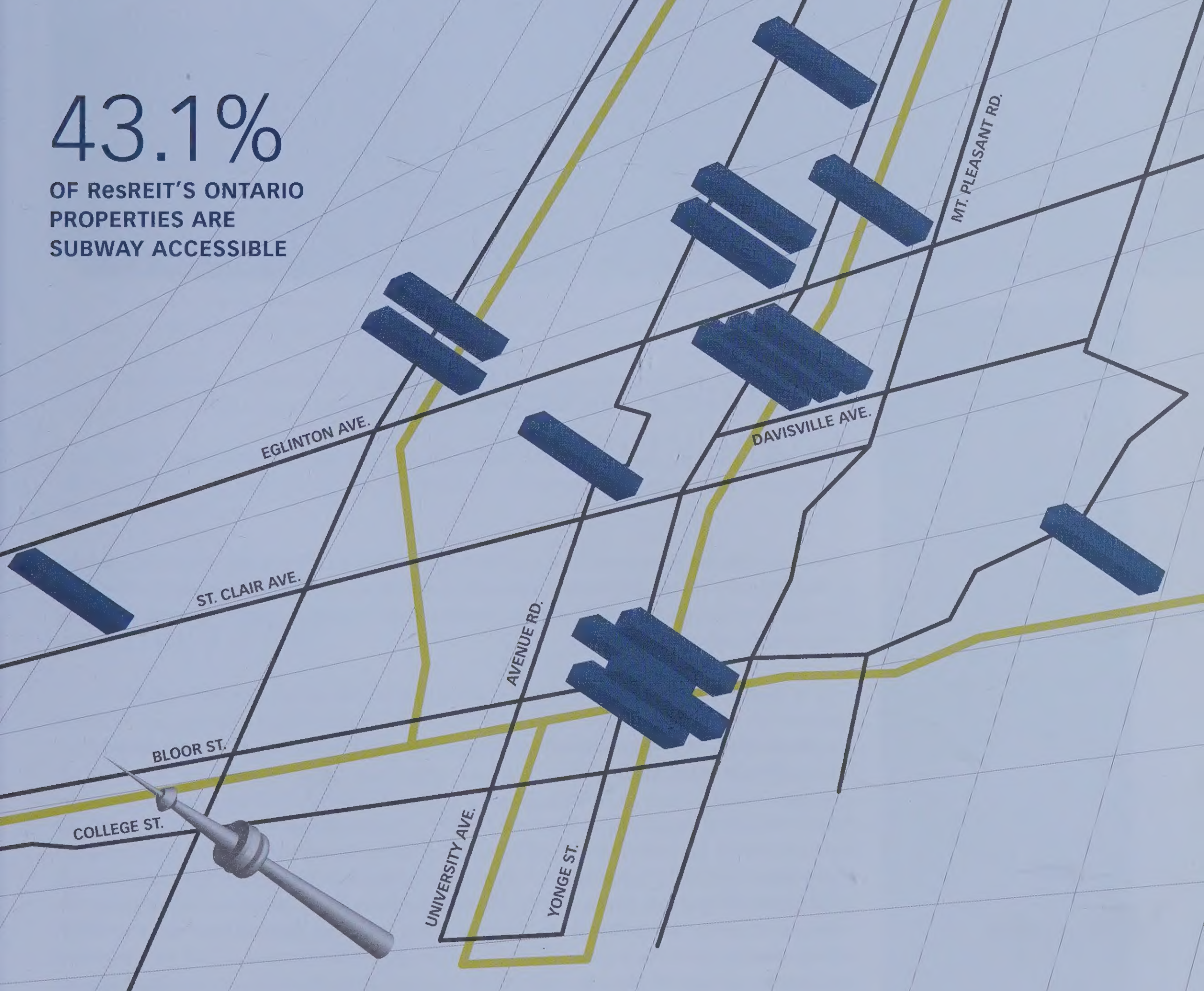
GARY HATT
PAINTER

To learn more about ResREIT, its portfolio and investment highlights, please visit www.resreit.com. For property and rental information, visit www.resrent.com.

ResREIT is one of Canada's largest residential real estate investment trusts, offering investors significant returns through stable, tax-efficient monthly distributions and the inherent growth potential of Canada's urban apartment market. ResREIT controls 100% of its portfolio, comprised of 10,890 residential suites located in five major Canadian centres.

43.1%

OF ResREIT'S ONTARIO PROPERTIES ARE SUBWAY ACCESSIBLE

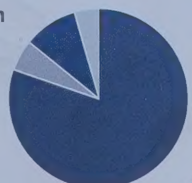


ResREIT Properties in Toronto's Core
(map is not to scale)

Subway Line

Geographic Distribution of Suites

Ontario	8,753
Québec	611
Alberta	1,053
British Columbia	473
TOTAL	**10,890**



2003 Achievements

- Increased operating revenues over 2002 by 10.2%
- Provided a total return to unitholders of 20.1%
- Prudently acquired 800 suites – $60.4 million in accretive investments
- Increased annual distributions for the fifth consecutive year
- Furthered resident attraction and retention initiatives and techniques
- Continued to develop and execute internal growth initiatives
- Internalized property management function (March 2004)

Financial Highlights 2003

OPERATING PERFORMANCE

IN THOUSANDS, EXCEPT PER-UNIT AMOUNTS

	2003	2002	% Increase
Property rental income	$ 124,764	$ 113,254	10.2%
Property net operating income	$ 61,796	$ 58,189	6.2%
Net income	$ 17,090	$ 19,576	(12.7%)
Distributable income	$ 32,295	$ 32,388	(0.3%)
Distributable income per unit [1]	$ 1.20	$ 1.22	(1.6%)
Cash flow per unit [1]	$ 1.23	$ 1.24	(0.8%)
Payout ratio (of cash flow)	87.0%	84.7%	2.3%

[1] WEIGHTED NUMBER OF UNITS 2003 - 26,858,027 (2002 - 26,491,569)

BALANCE SHEET

AS AT DECEMBER 31 : IN THOUSANDS, EXCEPT WHERE OTHERWISE INDICATED

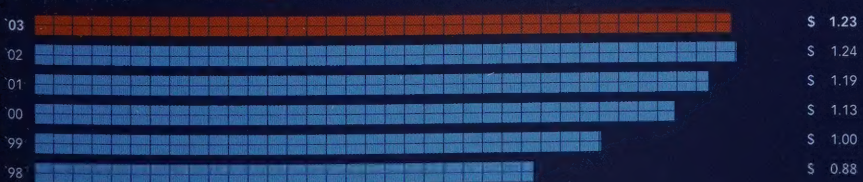
	2003	2002
Gross book value of property assets, beginning of year	$ 639,109	$ 590,625
Acquisitions	$ 61,872	$ 39,651
Capital expenditures	$ 15,610	$ 8,833
Gross book value of property assets, end of year	$ 716,591	$ 639,109
Mortgage debt and bank loan payable	$ 451,192	$ 383,254
Loan-to-gross-property book value	63.0%	60.0%
Number of suites	10,890	10,090

Our Mandate

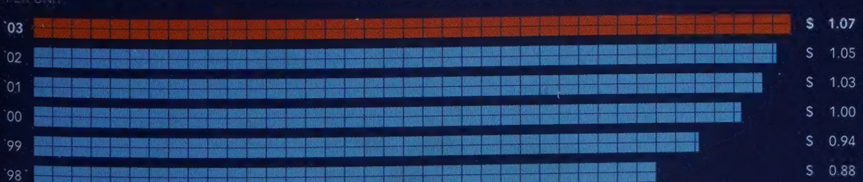
- To provide unitholders with stable, tax-efficient and growing cash distributions, payable monthly from investments made in a portfolio of residential apartment properties located throughout Canada;
- To develop the portfolio value through stringent acquisition criteria, sound internal growth strategy and a prudent capital expenditure program administered by a professional, experienced management team; and
- To maximize unitholder value with strong financial management, including generating sustainable cash flow growth.

Operating Revenues
IN MILLIONS

Cash Flow From Operations
PER FULLY PAID UNIT

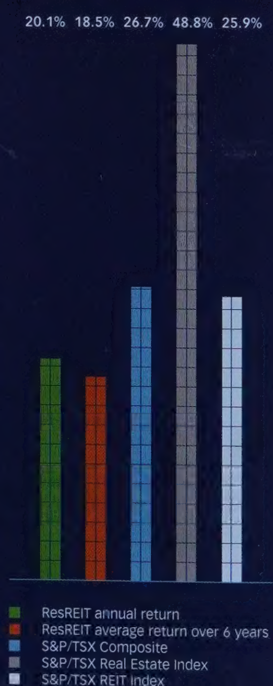


Distributions Per Unit
PER UNIT



* Annualized

2003 Return Comparatives



Letter to Unitholders

"ResREIT IS AN AROUND-THE-CLOCK BUSINESS. AS ACTIVE ASSET MANAGERS, WE WORK DILIGENTLY TO IMPROVE THE VALUE OF THE INVESTMENT FOR UNITHOLDERS. AS REAL ESTATE PROFESSIONALS, WE'RE THERE '24-7', CREATING A SOUGHT-AFTER LIFESTYLE CHOICE TO ATTRACT AND RETAIN RESIDENTS."

SOLID AND STABLE THROUGH ALL ECONOMIC CLIMATES

PROVEN SUCCESS RESULTING FROM AN ABILITY TO REACT, ADAPT AND IMPROVE

Capital expenditures last year were $15.1 million and included lobby and corridor upgrades, heating plant replacements and garage deck waterproofing.

A Timeless Investment, A Timely Business

From the outset, our mission has been to continually enhance our offering to investors and residents, to work diligently to seek conservative, measured growth for the benefit of all stakeholders. In 2003, this relentless pursuit of quality and our results-oriented approach made clear the overriding characteristics of our business:

- ResREIT is a timeless investment – solid and stable, through all economic climates
- ResREIT is a timely business – with proven success resulting from our ability to react, adapt and improve

While we faced a challenging environment in 2003 with extraordinarily low interest rates and the resultant increase in vacancy rates, ResREIT achieved revenue growth and provided a total return to unitholders of 20.1%, through active asset and property management strategies. Despite a tight market, we acquired 800 apartment suites, adding $60.4 million in accretive investment for unitholders. We increased our annual distributions for the fifth consecutive year. We introduced new resident-attraction and-retention programs that are now in full swing. And, subsequent to the end of 2003, we internalized our property management function. Throughout this annual report, we'll give you insight into our active management style and the components of our business – the investment, the portfolio of quality properties and our marketing and service initiatives – all part of the 24-hour, 7-day-per-week approach that underpins our success.

Internalized Property Management

Early in 2004, we achieved a milestone – and perhaps one of the most tangible measures of active management – by completing the internalization of the physical property management for all but four of ResREIT's properties.

Carefully considering the most prudent course of action, we elected to end the existing contract with Greenwin Property Management Inc. prior to the contracted expiry date. Management has taken the best possible approach – one that is good for business and accretive to investors. In addition to saving an estimated 2 cents to 3 cents per unit in fees over a one-year period, being internalized and aligned will help to generate long-term value for residents and unitholders.

In practical terms, internalization affords us the opportunity to review properties that have experienced high manager turnover and redress the situation. In fact, we have put enhanced human resources programs in place to attract and retain the most talented managers. We expect this to have a direct impact on property performance and to contribute to distribution growth down the road. We will also be able to better assist residents to move from one property to another with ease – focusing on retention within the portfolio as a whole.

Greenwin Property Management Inc. will continue to provide valuable accounting and administrative services to ResREIT at a reduced annual fee of 1.3% of gross receipts for a five-year period.

Now that ResREIT has assumed the property management function, we are confident that internalization will lead to higher distributable income and superior value creation for ResREIT unitholders.

Stability First

ResREIT has maintained an enviable track record of consistent, tax-advantaged returns to investors, an achievement that was evident in 2003, as we experienced revenue growth in a challenging year for residential real estate. We stayed the course, introduced initiatives to strengthen our offering and ultimately rewarded the loyalty of unitholders that recognize the stalwart fundamentals of our niche as a long-term, strategic investment.

In 2003, operating revenues bettered 2002 results by $11.5 million or 10.2%, growing to $124.8 million. Property net operating income rose to $61.8 million, up 6.2%, while gross margin fell to 49.5% from 51.4%, mainly due to gas cost increases and higher vacancies.

Despite extremely low interest rates throughout 2003, which allowed many renters to become homeowners, ResREIT was able to increase its same-store revenue by 3.0% for the year, even as vacancies throughout the Greater Toronto Area reached 3.8% – the highest vacancy rate seen in the rental market since the inception of rent control in 1976. ResREIT's year-end average rent was up slightly to $942 from $937.

PROPERTY MANAGEMENT

- Leasing
- Resident Relations
- Capital Expenditures
- Tenant-Retention Initiatives

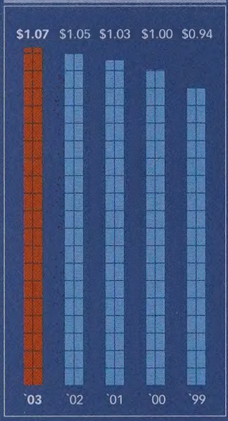
8:00 AM

Our team leverages asset management and real estate experience to execute a consistent strategy of growth, stability and commitment for the benefit of all stakeholders.

10:15 AM

At a training session at 30 Livonia Place, leasing agents, superintendents and property managers develop skills to better attract, service and, ultimately, retain residents.

CASH DISTRIBUTIONS



To address the vacancy rate, ResREIT leveraged its real estate expertise by initiating several proactive strategies: a leasing specialist with experience in softer U.S. markets was hired; attractive suite renovations are a constant; and, most important, new tenant-retention advertising and marketing programs were launched, garnering immediate results.

As an investment, we're consistent in our focus, with a safe, secure cash flow and an attractive risk/return ratio. Moreover, investing in our niche has proved once again in 2003 to have inherent upside throughout the business cycle.

In 2003, we were able to pass along to investors the benefits of internal growth, accretive acquisitions and the overall strength of our portfolio in the form of an increased monthly distribution – from 8.75 cents per unit to 9 cents per unit. ResREIT is one of the few REITs to increase annual distributions to unitholders in each year of operation, and has done so while generally lowering its payout ratio, which was up slightly in 2003 to 87.0%.

Other initiatives during 2003 included the investment of $15.1 million in capital improvements; new training courses designed for superior resident retention and customer service; energy efficiency upgrades; and refinancing or renegotiating several mortgages to more attractive terms.

The fundamentals of our business remain attractive to investors. Asset-based, we offer what many other income trusts cannot. We have acquired properties that are in key urban locations; in fact, almost 43% of our Ontario properties are on an urban subway line. As an investment, we are consistent in our focus, with a safe, secure cash flow and an attractive risk/return ratio. Moreover, investing in our niche has proved once again in 2003 to have inherent upside throughout the business cycle. As such, we were recognized for our constancy with an S&P Stability Rating in 2003, the second-highest rating possible.

Despite a tight acquisition market, we added 800 apartment suites to the portfolio in 2003 – a $60.4 million accretive investment.

Sensible Growth

In 2003, management continued to pursue prudent and accretive acquisition opportunities that were either positioned in growing metropolitan areas or near other ResREIT properties for improved cost synergies. ResREIT acquired 800 new apartment units, for a total purchase price of $60.4 million, including 141 Davisville Avenue, a 313-suite building, which strengthens ResREIT's presence in central Toronto.

ResREIT has an excellent reputation among vendors for streamlining the process, buying efficiently and fairly. Currently, the portfolio is comprised of 10,890 suites and 225,103 square feet of commercial space – gross property assets that now total $716.6 million.

ResREIT's strategy is to reposition selected properties to take advantage of the demand for high-quality, urban apartments; and having invested over $59.8 million of capital in the portfolio over the past six years, most major projects are now complete. Capital expenditures for 2003 were $15.1 million and included lobby and corridor upgrades, heating plant replacements and garage deck waterproofing.

A Success Story

To us, active asset and property management is an around-the-clock business. As a result, the staff within this organization – from the boiler room to the board room – has achieved tremendous success in terms of improving our properties and the resident experience. And we've done so while delivering consistent and exceptional returns to our investors. It's a win-win reality that we knew could be achieved.

While 2003 was a difficult year, we performed well – a testament to our strategy, the endurance of urban residential real estate and the desire for well-located apartments as the urbanization of Canada continues.

I would like to take this opportunity to thank our Board for their dedication and valued guidance year-round – especially through the significant corporate initiatives of 2004. The changes that are taking place will have both immediate and long-term benefits for ResREIT stakeholders – and have been made possible because of the hard work and success of this organization's talented team of real estate professionals.

Our sector continues to grow and our buildings are in excellent condition going forward.

On behalf of the entire ResREIT team, let me say that it has been a pleasure to work with and for the residents, investors and advisors associated with this exceptional Canadian success story.

DINO CHIESA

PRESIDENT & CHIEF EXECUTIVE OFFICER

3:04 PM

Resident retention is part of our daily business strategy and includes initiatives such as after-school programs, discounts at theatres, charitable events, coffee mornings, barbecues and gift certificates for tenant referrals.

4:29 PM

At 141 Davisville, a workman inspects a boiler. In 2003, capital expenditures included energy-efficient boiler upgrades and other portfolio-wide engineering initiatives.

5:17 PM

ResREIT's attractive signage not only provides information about available rental suites to passersby, it also markets our Web site and advertises current "move in" specials.

6:45 PM

Accountable to residents, we strive to increase our service offering and provide an increasingly timely response to all calls, queries and work orders.

Active Pursuits

"WE'RE IN A COMPETITIVE ENVIRONMENT, BUT WHAT SETS US APART IS AN ACTIVE, SOPHISTICATED OPERATION. WE WORK AROUND THE CLOCK TO ENSURE THAT WE ATTRACT AND RETAIN RESIDENTS WHO VALUE THE QUALITY LIFESTYLE CHOICE ResREIT BUILDINGS PROVIDE."

Taking Initiative: Aggressive Strategies, Successful Execution

The year 2003 was challenging for ResREIT and its peers. Low interest rates prompted home buying, which in turn led to increased vacancies in key markets across the country. However, leveraging real estate and asset management expertise, ResREIT developed a number of initiatives to attract and retain residents – a proactive strategy that we have continued into 2004.

Internalization

In early 2004, we completed the internalization of our property management function including leasing, physical property management and resident relations for all but four of our properties. This milestone allows us to better facilitate the portfolio-wide advertising, marketing and tenant-retention programs we began in 2003.

In order to improve the way we accommodate our existing residents, we've put an emphasis on service excellence, which we believe starts with superior training and staff retention – both of which have a profound impact on our resident base.

We've instituted rigid evaluations and customized training to capitalize on strengths and address weaknesses among leasing agents, superintendents and property managers.

Committed to proactive measures to address high vacancy rates in the GTA, ResREIT hired a leasing specialist with vast real estate experience in softer U.S. markets to provide strategic guidance and facilitate formal customer-service training to all staff.

This year, ResREIT began to hold topic-specific seminars on sales techniques that range from improving our ability to "close", to more efficiently implementing our "transfer policy" – keeping residents within the portfolio when their living requirements change, and streamlining the application process. In the GTA specifically, we've let our tenants know that we can accommodate them in more than one desirable urban location.

Within our buildings we've been working toward an ever-more efficient response time to all inquiries and work orders with same-day acknowledgement, expedient completion of small tasks and a guaranteed service time on larger projects, which generally can be completed within a week.

In essence, we've endeavoured to create consistency throughout the portfolio, a standard template of service excellence.

Resident Retention

Creating a sought-after lifestyle choice for residents in an urban environment is critical to resident retention. From suite renovations and other capital investments that enhance pride and satisfaction for residents, to a series of informal programs that include coffee mornings, barbecues, sporting events and holiday activities, ResREIT strives to provide residents with the benefits and community approach that they expect in their home – and in their neighbourhood.

Other retention initiatives include a referral program for residents. For each applicant referred, the existing resident receives a gift certificate or other incentive. These referrals now account for approximately 10% of new residents. In addition, we regularly negotiate popular standing group discounts at casinos and theatres for our residents and have also instituted a newsletter to keep them informed and connected to portfolio-wide activities.

Community Involvement

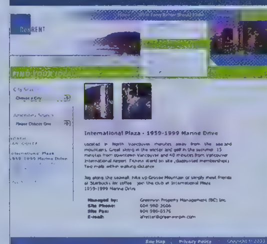
Since inception, ResREIT has also taken its social and ethical responsibilities seriously, engaging with both our community of residents and the extended community at large.

On a portfolio-wide basis, ResREIT participates in an annual food drive in which staff go door-to-door collecting food for local food banks. We are also actively involved on a building-to-building basis. For example, at our San Romanoway property, we're in the second year of a program partnering with other private landlords, multiple levels of government, condominium associations and charitable organizations to create specialized programs for residents such as a community garden, youth mentoring, after-school activities and summer camp.

We believe that creating a sense of community with residents is our responsibility as a property owner – and it's also an approach that resonates well, as we continue to learn through their participation and feedback. It's another reason why residents think of their ResREIT apartment as "home" – and it is a complement to our mandate of creating a distinctive lifestyle choice.

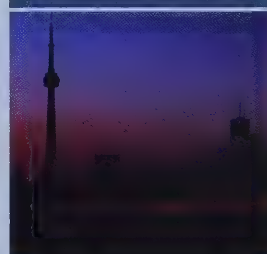
8:30 PM

As a pilot project, ResREIT has recently created a fully furnished bachelor suite with maid service, available exclusively for residents' guests.



10:21 PM

Prospective residents make informed decisions by visiting www.resrent.com, at their convenience, to access photos, amenities and special promotions for our properties.



11:56 PM

During the August 2003 blackout we took our responsibility as a landlord seriously – ensuring that tenants were safe and had access to food, water and other necessities.

2:45 AM

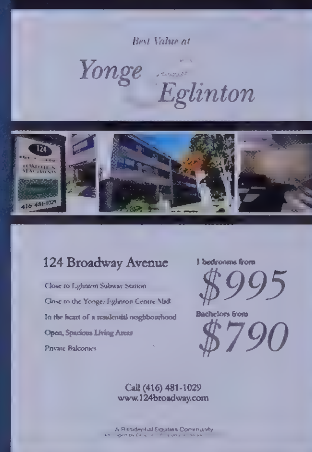
No matter what time of day – or night – security for our residents is of paramount importance. Improved lighting, sightlines, fob access and security cameras add to peace of mind.

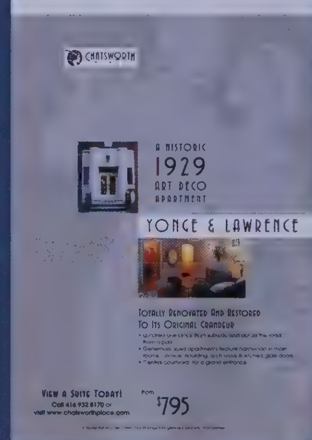
Marketing Initiatives

In 2003, ResREIT's marketing program became more aggressive to address a more challenging real estate environment. The tactics we instituted include more targeted promotion that demonstrates an understanding of our clientele and their needs within our niche — selectively focusing on building amenities, local attractions and lifestyle, while remaining price conscious. We advertise in national publications, local community papers and *Renters News*, which continues to be an important real estate publication. We have also found direct mailers to be particularly effective in sub-markets.

In Toronto, we created unique initiatives such as setting up a rental information booth in the well-located Yonge-Eglinton Centre to promote our properties in the immediate area.

Last year, we enhanced our existing signage with attention-getting banners that advertise special promotions at specific properties — and revamped our Web site to similarly market our buildings and complement the existing urban lifestyle influence of our print advertising.





OUR ADVERTISING HAS BECOME INCREASINGLY MORE TARGETED, DEMONSTRATING AN ACUTE UNDERSTANDING OF THE NEEDS OF THE CLIENTELE WITHIN OUR NICHE — QUALITY LIFESTYLE, SERVICE, AMENITIES AND LOCATION.

Quality Properties, Quality Locations

Supported by sufficient capital and seasoned business acumen, ResREIT's management team has assembled one of the best residential portfolios in Canadian real estate history.

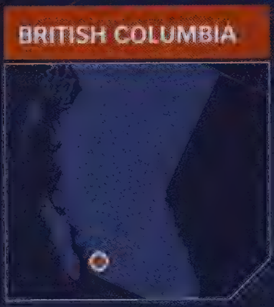
In 2003, ResREIT invested $60.4 million in accretive acquisitions including: Bois-Franc and Côte-Des-Neiges in Montreal, 141 Davisville Avenue, 46 Foxden Road and 110 Cottonwood Drive in Toronto and 640 Guelph Line in Burlington. All of these acquisitions represent quality opportunities in attractive locations — and each is a strategic complement to the existing portfolio.

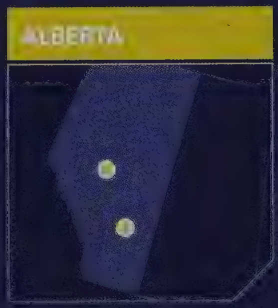
This approach to acquisitions — seeking properties with both instant meaningful value and value-creation opportunities — has been the driving force behind ResREIT's success.

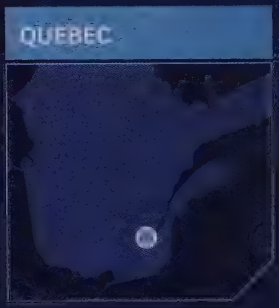
In terms of value creation in 2003, ResREIT invested $15 million in capital improvements including a water efficiency retrofit at Pentland Place; lobby and corridor upgrades at Yonge and Lawrence; elevator modernization at International Plaza; portfolio-wide boiler upgrades, suite and corridor renovations; garage deck waterproofing at 25 Bay Mills Boulevard; riser replacement at 77 Huntley Street; and heating plant replacements at 1055 Bloor Street East and 30 Livonia Place. The impetus is to support our "Quality Living" mandate, as well as projects that create cost synergies or savings through increased energy efficiency. The result is a high-demand product that should, ultimately, enhance the value of a ResREIT investment.

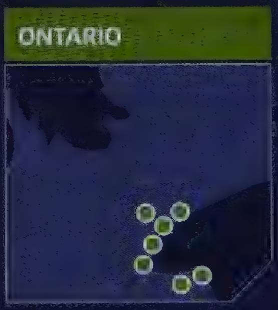
The Portfolio

Capital expenditures for 2003 were $15.1 million and included lobby and corridor upgrades, heating plant replacements, elevator modernization and garage deck waterproofing. This year we continue to invest in value-creation initiatives that increase energy efficiency, improve "curb appeal" and further our resident retention strategy.









In addition to suite renovations, the elevator system was modernized at 1959-1999 Marine Drive in North Vancouver. The upgrades are in keeping with our initiatives to create a "Quality Living" environment to attract and retain renters-by-choice.

In Edmonton and Calgary, the impetus in 2003 was on water-efficiency retrofits and other energy-saving initiatives at all four of ResREIT's properties – upgrades that will ultimately lead to cost savings. In addition, suite renovations of $327,000 were completed.

Of the 800 units aquired in 2003, 440 were in Ontario – furthering ResREIT's presence in growing urban centres. While the Toronto market proved particularly challenging, ResREIT addressed the high vacancy rate environment with proactive initiatives including marketing, advertising, attractive suite renovations and superior sales training.

In the largest apartment market in Canada, ResREIT acquired 4760 Côte-des-Neiges, a 125-suite property in central Montreal, and the 11-building Bois Franc Residential Project in St. Laurent. The buildings, located in highly desirable urban neighbourhoods, will be accretive to unitholders.

Portfolio Summary

PROPERTY	YEAR BUILT	TOTAL SUITES	AVERAGE RENT	VACANCY RATE	AVAILABILITY RATE
ONTARIO					
33 Davisville Avenue, Toronto	1973	266	$ 830	0.38%	0.00%
111 Davisville Avenue, Toronto	1970	370	968	3.78%	2.70%
77 Huntley Street, Toronto	1973	561	892	3.39%	2.85%
88 Isabella Street, Toronto	1968	82	1,067	0.00%	0.00%
921/923/925 St. Clair Avenue West, Toronto	1955	71	764	4.23%	4.23%
500 Murray Ross Parkway, Toronto	1978	390	1,028	5.13%	3.85%
10 San Romanoway, Toronto	1977	428	972	7.01%	4.67%
1/23 Oriole Road, Toronto	1954/55	127	1,001	3.15%	3.15%
411 Duplex Avenue, Toronto	1974	455	1,041	3.30%	1.98%
33 Orchardview Boulevard, Toronto	1976	326	1,053	4.60%	3.68%
1004 Lawrence Avenue East, Toronto	1966	65	920	4.62%	1.54%
236 Dixon Road, Etobicoke	1963	123	991	7.32%	7.32%
1055 Bloor Street East, Mississauga	1971	323	1,017	7.12%	3.10%
Park Royal Village, Mississauga	1967/68/74	601	965	10.48%	7.65%
25 Bay Mills Boulevard, Toronto	1974	281	1,072	6.76%	5.34%
100/101/200/201 White Oaks Court, Whitby	1978/79	704	939	6.68%	5.82%
5200 Lakeshore Boulevard, Burlington	1966	72	1,004	1.39%	1.39%
7/9 Roanoke Road, Toronto	1963	226	925	7.52%	5.31%
56-88 Cassandra Boulevard, Toronto	1965	160	1,266	5.00%	4.38%
20 Shallmar Boulevard, Toronto	1963	155	1,103	5.81%	5.81%
2515 Bathurst Street, Toronto	1955	115	1,024	11.30%	10.43%
124 Broadway Avenue, Toronto	1956	86	880	15.12%	15.12%
100 Wellesley Street East, Toronto	1970	424	1,105	2.12%	1.42%
6 John Street, Oakville	1978	75	1,438	0.00%	0.00%
221 Glenridge Avenue, St. Catharines	Late 1970s	136	748	0.00%	0.00%
100 Lancaster Drive, Welland	1979	112	719	0.89%	0.89%
511 Guelph Line, Burlington	1964	83	896	1.20%	0.00%
33 Eastmount Avenue, Toronto	1965	211	1,004	5.21%	4.74%
505 Locust Street, Burlington	1975	118	999	0.85%	0.00%
30 Livonia Place, Toronto	1979	200	938	10.00%	8.50%
2051-2067 Prospect Street, Burlington	1968	71	858	4.23%	1.41%
1360-1422 Tyandaga Park Drive, Burlington	1968	84	956	0.00%	0.00%
351 Geneva Street, St. Catharines	1973	106	767	2.83%	1.89%
363 Geneva Street, St. Catharines	1972	109	642	0.00%	0.00%
34/36/42 Maitland Street, Toronto	1912	56	957	0.00%	0.00%
274/276/278 Cedar Avenue, Richmond Hill	1974	95	935	5.26%	5.26%
2076 Sherobee Road, Mississauga	1984	199	1,272	5.03%	3.02%
2928/2932 Yonge Street and 1 Cheritan Avenue, Toronto	1935	156	933	8.97%	8.33%
4067 Longmoor Drive, Burlington	1973	91	808	2.20%	1.10%
640 Guelph Line, Burlington	1964/65	83	738	0.00%	0.00%
46 Foxden Road and 110 Cottonwood Drive, Toronto	1966	44	876	18.18%	18.18%
141 Davisville Avenue, Toronto	1970	313	895	4.47%	3.83%
		8,753	**$ 973**	**5.12%**	**3.96%**
QUEBEC					
55 Laframboise, St. Laurent	1990	143	721	0.70%	0.70%
321 Lanthier Avenue, Pointe-Claire	1978	108	1,133	0.00%	0.00%
Bois-Franc, St. Laurent	1998/99/2000	235	994	2.98%	2.98%
4760 Côte-des-Neiges, Montreal	1970	125	636	2.40%	2.40%
		611	**$ 882**	**1.80%**	**1.80%**
ALBERTA					
6707 Elbow Drive S.W., Calgary	1971	272	792	5.15%	1.47%
924-7th Avenue S.W., Calgary	1969	154	791	4.55%	1.30%
8510-111th Street, Edmonton	1965	310	744	1.29%	0.32%
9100 Bonaventure Drive S.E., Calgary	1982	317	831	3.15%	0.95%
		1,053	**$ 789**	**3.32%**	**0.95%**
BRITISH COLUMBIA					
1959-1999 Marine Drive S.E., North Vancouver	1975	473	790	0.00%	0.00%
		473	**$ 790**	**0.00%**	**0.00%**
TOTAL		**10,890**	**$ 942**	**4.54%**	**3.38%**

Property Profiles

Chatsworth Place: Creating Value

2928 / 2932 Yonge Street and 1 Cheltenham Avenue

During 2003, ResREIT continued to reposition selected properties to capitalize on the demand for high-quality and well-located apartments that offer a unique lifestyle choice. As such, we completed renovations at Chatsworth Place – a three-building, art-deco-style complex situated on the subway line in Metro Toronto.

To recapture some of the original 1930s' allure, we renovated the corridors and lobbies with era-appropriate furnishings, wall coverings, light fixtures, window treatments, carpeting and paint. We also refurbished the exterior and added unique signage to accentuate the art-deco appearance and improve curb appeal. This property, purchased in 2002 at 50% below replacement cost, was acquired as another asset with inherent upside potential to further strengthen our portfolio.

Capital expenditures and suite renovations since acquisition	$	427,000
Average monthly rent/suite, pre-acquisition	$	838
Average monthly rent/suite, December 31, 2003	$	933
Comparable average market monthly rent*	$	1,055

* Source - Altus Group Rental Housing Report, October 2003

Davisville Village: Critical Mass

33 / 111 / 141 Davisville Avenue

Comprising almost 1,000 suites in total, ResREIT's collective Davisville properties are well located in the heart of Toronto, near the subway line and all major amenities. With the addition of 141 Davisville Avenue (see Recent Acquisitions on page 13), ResREIT has three buildings out of seven in one of the most desirable locations in the city, which allows us to better service the community at large – meeting the needs of Village residents, endeavouring to relocate residents from one building to another should their living requirements change and continuing to facilitate events like the community garage sale and barbecue organized in 2003.

ACTIVITIES

In 2003, we renovated the rental office at 33 Davisville Avenue to better utilize the space for on-site training sessions. We also created a "community room" at the property, which is made available to residents to host community events and speakers. As part of our "residents first" mandate, we hold aquafit classes at the rooftop swimming pool at 111 Davisville Avenue and also provide discounts for local services and fitness facilities.

Recent Acquisitions

STRINGENT CRITERIA

FOCUS ON CORE MARKETS
DESIRABLE URBAN NEIGHBOURHOODS
DISTINCTIVE PROPERTIES WITH IMPROVEMENT POTENTIAL
PURCHASE BELOW REPLACEMENT COST
ACCRETIVE TO UNITHOLDERS

TORONTO

**141 Davisville Avenue,
46 Foxden Road and 110 Cottonwood Drive**

In 2003, ResREIT continued to execute its conservative acquisition strategy, adding 800 rental units to its portfolio in a competitive market. During the year, a 357-suite portfolio in Toronto was acquired for a purchase price of $25.5 million with an initial forecasted leveraged return on equity of 13.6%. In keeping with our policy of identifying buildings situated in areas with both current and future positive market conditions, this accretive acquisition enhances our existing presence in metropolitan Toronto.

BURLINGTON

640 Guelph Line

In June, ResREIT acquired 640 Guelph Line – a 7-storey, 83-suite building located in Burlington. At a purchase price of $4.8 million, the well-located property furthers our presence in a growing urban centre in Ontario — a complement to ResREIT's six other Burlington buildings.

MONTREAL

4760 Côte-des-Neiges

4760 Côte-des-Neiges is a 125-suite building that ResREIT acquired in May for $7.1 million, which is less than 40% of its replacement cost. Management is optimistic that this building — together with the Bois-Franc Residential Project, an 11-building, 235-suite luxury complex purchased at a cost of $23.0 million in March — will deliver good value to the ResREIT portfolio.

GROSS BOOK VALUE

IN MILLIONS OF DOLLARS

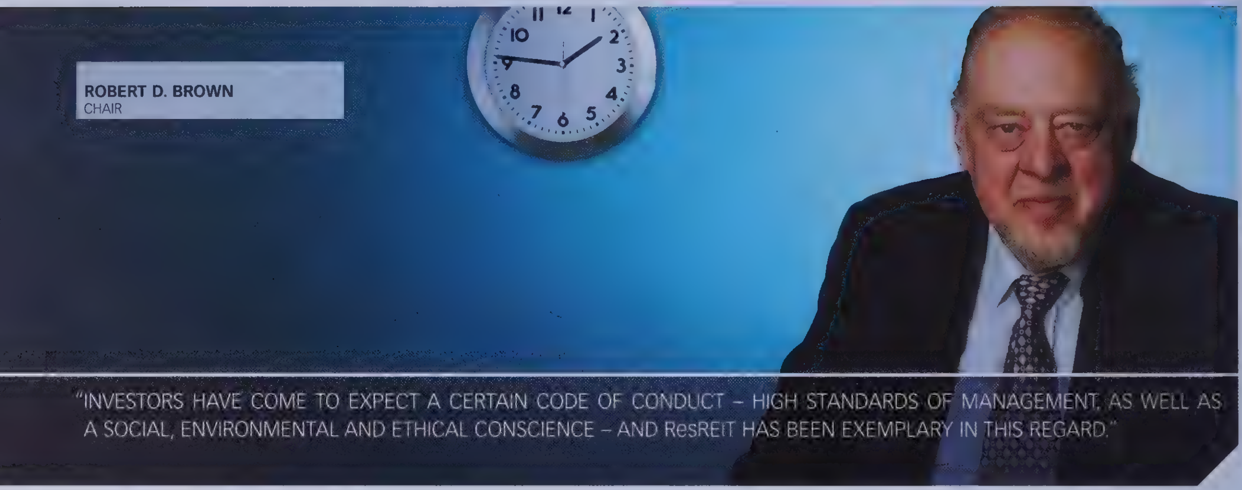
2003	717
2002	639
2001	591
2000	547
1999	489
1998	405
IPO	371

GROWTH THROUGH ACQUISITIONS

NUMBER OF SUITES

2003	10,890
2002	10,090
2001	9,643
2000	9,111
1999	8,251
1998	7,251
IPO	6,838

Governance and the Board of Trustees



Integrity, accountability and independence.

It is the mandate of your Board of Trustees to exercise basic responsibility for the stewardship of ResREIT on behalf of unitholders. The Board does this directly, at its regular meetings and through additional contacts with management throughout the year. The Board also discharges its responsibilities through its Audit, Compensation and Governance, and Investment committees, which meet regularly to deal with delegated issues and new developments. Through these means, the Trustees endeavour to fulfill their duties and to support informed, prudent and resolute decision-making that accrues to the benefit of all ResREIT stakeholders. The basic tenets we strive to follow in performing these duties are integrity, accountability and independence.

As is mentioned throughout this annual report, ResREIT is an entrepreneurial business engaged in a competitive and changing environment, with many new initiatives required to respond to our challenges. The Board is charged with vetting and approving both ResREIT's overall strategy and the numerous projects underway to implement that strategy. In carrying out these responsibilities, the Trustees provide measured counsel to management for the benefit of all stakeholders – investors, residents and employees.

Based on the strength of the organization – and its balance sheet – the Board deemed an increase in distributions to unitholders to be both prudent and warranted. As such, annual distributions were raised – an achievement in an environment that posed challenges to ResREIT and its peers. ResREIT is one of the few REITs to increase annual distributions in every year since inception, and to do so while striving as a long-term objective to lower its payout ratio.

Last year, ResREIT's independent Board vetted the accretive acquisition of 800 units in key urban locations and $15.1 million in capital expenditures. In early 2004, the Trustees also provided guidance through – and approval of – the completion of the internalization of the property management function, a milestone now in full effect.

- ● AUDIT COMMITTEE
- ■ COMPENSATION AND GOVERNANCE COMMITTEE
- ▲ INVESTMENT COMMITTEE

Board of Trustees

ROBERT D. BROWN, FCA ● ■ ▲
CHAIR

Mr. Brown has completed a term as the Clifford Clark Visiting Economist, providing senior policy advice to the Canadian Department of Finance and its Minister. He has also served as a director of the Institute of Corporate Directors and is a corporate consultant. He is a past chair and CEO of Price Waterhouse (now PricewaterhouseCoopers LLP) and a past chair of C.D. Howe Institute and the Canadian Institute of Chartered Accountants. Mr. Brown was also a member of the Toronto Stock Exchange Committee on Corporate Governance.

CATHERINE BARBARO ●
CORPORATE DIRECTOR

Ms. Barbaro has been a corporate and commercial lawyer practising in mergers and acquisitions since 1989. Most recently at Mosaic Group, she was responsible for securities compliance, private placements and public offerings, human resource issues, acquisitions and operational contracts in Canada, the United States and the United Kingdom. Ms. Barbaro is an active member of the community and has served on numerous community boards.

DINO CHIESA ▲
PRESIDENT AND CHIEF EXECUTIVE OFFICER, RESIDENTIAL EQUITIES REAL ESTATE INVESTMENT TRUST

Mr. Chiesa has over 30 years' public and private sector real estate industry experience. Prior to joining ResREIT in 1999, he was Assistant Deputy Minister at the Ontario Ministry of Municipal Affairs and Housing and CEO of the Ontario Housing Corporation and the Ontario Mortgage Corporation. In July 2003, Mr. Chiesa was appointed Vice-Chair of the Board of Directors of Canada Mortgage and Housing Corporation. He also serves on various community boards.

JOHN H. DANIELS ▲
CHAIRMAN, THE DANIELS CORPORATION

Mr. Daniels was a founder, chairman and CEO of Cadillac Fairview Corporation. He is director of Erin Mills Development Corporation, Consolidated H.C.I. Corporation and Anitech Enterprises Inc.

ABRAHAM J. GREEN, C.M. ●
PRESIDENT, GREENWIN PROPERTY MANAGEMENT INC.

Mr. Green is one of the three founders of the Greenwin Group. Since 1950, he has maintained an active involvement in all facets of the business with a focus on the planning, development and building design areas of the business. In 2002, Mr. Green received the Order of Canada.

EDWIN F. HAWKEN ■ ▲
CORPORATE DIRECTOR

Mr. Hawken is a corporate director, serving on the boards of various public and private corporations as well as not-for-profit organizations.

ALBERT J. LATNER ■ ▲
CHAIRMAN, GREENWIN PROPERTY MANAGEMENT INC., DYNACARE INC., SHIPLAKE MANAGEMENT COMPANY, CHAIRMAN EMERITUS

As one of the three founders of the Greenwin Group, Mr. Latner continues to oversee the business development, strategic planning and financial growth of the company.

SANDRA LEVY ■
DIRECTOR, SOCIAL RESPONSIBILITY AND DONATIONS, MAGNA INTERNATIONAL

Ms. Levy was a member of the Canadian Olympic Field Hockey Team and competed in the 1992 and 1988 Olympics and is a member of numerous sport and community-related boards. A lawyer by training, she was also a member of the Toronto 2008 Olympic Bid Committee.

GRAHAM S. RENNIE ●
PRESIDENT AND MANAGING PARTNER, INTEGRA CAPITAL MANAGEMENT CORPORATION

Mr. Rennie founded Integra Capital Management, a Canadian firm providing institutional investment management services to pension plans, endowment funds, corporations and individuals.

In order to preside over such strategic growth initiatives, the Board deliberates the ultimate effect of each decision on the foundation ResREIT has been building since 1998 of stable, tax-efficient returns, growing cash distributions and overall portfolio value. This commitment continues as this annual report goes to press and we carefully consider new initiatives put forth and their accretive benefit to unitholders.

I would like to take this opportunity to thank all of our Trustees, on behalf of unitholders, for their commitment to improve the standards of governance and adhere to a high code of conduct, including unbiased judgment, respect, honesty and credibility. While the ultimate judgment remains with unitholders, I believe that ResREIT has been well served by its Board.

I must also recognize Dino Chiesa, President and CEO, for leading his team of asset and property management professionals with integrity and a desire to continually exceed expectations. Despite a competitive environment, caused by a growing stock of alternative accommodation supported by a low interest-rate environment, which, in turn, contributed to high vacancy rates, Dino Chiesa, Maurice Kagan and Jason Lester, supported by all ResREIT employees, were able to increase operating revenues by 10.2% and ultimately achieve a total return to unitholders of 20.1%. The unitholders owe all of our ResREIT staff a vote of thanks for their achievements.

ROBERT D. BROWN
CHAIR

Management's Discussion and Analysis

MAURICE KAGAN
CHIEF FINANCIAL OFFICER & SECRETARY

"MANAGEMENT'S GOAL IS TO OPTIMIZE OPERATIONAL CASH FLOWS THROUGH A STRATEGY OF ACCRETIVE ACQUISITIONS, CONSISTENT INTERNAL GROWTH AND VALUE-ENHANCING PROJECTS. WITH THIS METHODOLOGY, MANAGEMENT EXPECTS TO GENERATE AND SUSTAIN CASH DISTRIBUTIONS TO ResREIT'S UNITHOLDERS."

The following management's discussion and analysis ("MD&A") comments on the financial performance and position of Residential Equities Real Estate Investment Trust ("ResREIT") for the years ended December 31, 2003 and 2002. This section should be read in conjunction with ResREIT's audited consolidated financial statements and related notes beginning on page 27 of this annual report, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The MD&A contains forward-looking information and statements that are based on management's assumptions and estimates at the time of preparation of this annual report. As these assumptions and estimates are based on management's best judgment, there exist risks and uncertainties that may lead to material differences between ResREIT's actual results and the forward-looking statements. These challenges are discussed in the Risks and Uncertainties section of the MD&A.

Chart figures are expressed in thousands, except for per-unit amounts, or as otherwise indicated.

Overview

COMPANY DESCRIPTION

ResREIT is an unincorporated, closed-end real estate investment trust created by a Declaration of Trust dated January 28, 1998, as amended, for the benefit of unitholders and governed by the laws of the Province of Ontario. On February 16, 1998, ResREIT commenced operations, with an initial portfolio of 33 properties consisting of 6,838 residential units and 209,042 square feet of commercial space, situated in Quebec, Ontario, Alberta and British Columbia. As at December 31, 2003, the portfolio was comprised of 10,890 suites and 225,103 square feet of commercial space, wholly owned by ResREIT. ResREIT's units trade on the Toronto Stock Exchange under the symbol "REE.UN".

ResREIT's objectives are:

- to provide unitholders with stable, tax-efficient and growing cash distributions, payable monthly from investments made in a portfolio of residential apartment properties located in Canada;
- to develop the portfolio value through stringent acquisition criteria, sound internal growth strategy, and prudent capital expenditure program administered by a professional and experienced management team; and
- to maximize unitholder value with strong financial management, including generating sustainable cash flow growth.

During 2003, ResREIT completed four quality purchases despite a competitive acquisition market. Of the year's suite additions, 360 were located in Quebec, the largest apartment market in Canada, which should provide substantial returns to ResREIT. Management also invested $15.1 million in capital expenditures throughout the portfolio, as several properties underwent major renovations or upgrades to the corridors, boilers and elevators. Finally, unitholders have seen annual distributions grow again for the fifth consecutive year, with cash distributions of $1.07 per unit and an annual total return of 20.1% for 2003. Management is hopeful that in 2004 this trend will continue.

The following chart details ResREIT's closing price on the last trading day of each year, annual cash distributions per unit and related statistics for the past five years:

	2003	2002	2001	2000	1999
Cash distributions	**$ 1.07**	$ 1.05	$ 1.03	$ 1.00	$ 0.94
Payout ratio *(cash flow from operations)*	**87.0%**	84.7%	86.6%	88.5%	94.0%
Tax deferral	**68.1%**	69.4%	76.0%	79.8%	87.5%
Closing price	**$15.13**	$ 13.49	$ 14.97	$ 12.70	$ 10.95
Total return	**20.1%**	(2.9%)	26.0%	25.1%	20.1%
Cumulative compounded return[1]	**140.4%**	99.4%	105.5%	61.8%	27.6%

[1] *Calculation assumes reinvestment of distributions with ResREIT units.*

ASSET PORTFOLIO

ResREIT is one of Canada's largest real estate investment trusts with a portfolio of 10,890 residential units and 225,103 square feet of commercial space, of which 35.0%, on a suite basis, have 35-year term leases. Management's stringent acquisition policy has targeted high-quality, multi-unit apartment buildings located in major Canadian cities that will be accretive and strategic fits for the portfolio. Currently, ResREIT's gross book value of property assets is $716.6 million, with 59.3% growth from its initial portfolio of 6,838 suites. Commonly referred to as the "Subway REIT", ResREIT has approximately 36.5% of its total portfolio located in central Toronto near many amenities with easy access to both city transit and highways.

The geographical breakdown of the portfolio at year end is as follows:

	NUMBER OF SUITES	% OF PORTFOLIO
Central Toronto	3,974	36.5
Greater Toronto Area	4,316	39.6
Niagara Region	463	4.3
Quebec	611	5.6
Alberta	1,053	9.7
British Columbia	473	4.3
TOTAL	**10,890**	**100.0**

2003 DEVELOPMENTS SUMMARY

On June 4, ResREIT announced an increase in its monthly distributions from 8.75 cents per unit to 9.00 cents, a 2.9% growth, which commenced with the July distribution. With this increase, ResREIT distributed $1.07 per unit for the year to its unitholders, at a payout ratio of 87.0% and tax deferral of 68.1%. Management is pleased that ResREIT remains one of the few REITs to have grown annual distributions in each year of operation, particularly in the current rental market with its record high vacancy rates.

In the fall of 2003, the Liberal party was elected to office by Ontario voters. One of the intentions of this new government is to re-examine certain provisions of the *Tenant Protection Act*, which may negatively impact owners of apartment buildings, including ResREIT. However, the government has indicated that areas with vacancies higher than 3.0% will retain vacancy decontrol. Management is closely monitoring the situation and will act accordingly to ensure the stability of ResREIT's cash flows from operations.

During the year, ResREIT acquired 800 suites located in major cities in Quebec and Ontario. The acquisitions totalled $60.4 million, predominantly financed with mortgages of $46.0 million, with the balance from ResREIT's line of credit. Management pursued properties that were either positioned in growing metropolitan areas or near other ResREIT properties for improved cost synergies. The largest property added in 2003 was 141 Davisville Avenue, a 313-suite building located in central Toronto, furthering ResREIT's presence in the popular Davisville Village. As such, this property should generate operational efficiencies and savings, which management projects, as part of the 357-unit portfolio acquired, will provide a leveraged return on equity of 13.6%.

SUBSEQUENT EVENTS

Starting March 1, 2004, ResREIT internalized its property management function and entered into a new agreement with Greenwin Property Management Inc. ("Greenwin"). The new agreement allows ResREIT to assume direct responsibility over all leasing, physical property management, resident relations and site staff, for all but four properties, while Greenwin will continue to provide property accounting and administrative services. Management has retained the majority of managers, rental agents, site administrators and superintendents who have been responsible for the day-to-day operations of ResREIT's properties, allowing for a smooth transition in property management.

The terms of the new contract include a $1.8 million fee to Greenwin for early termination of the existing property management agreement. The previous agreement, which had an expiry date of February 16, 2006, was cancelable commencing February 16, 2004, with 12 months' written notice and a $1.0 million fee upon the termination or expiry of the contract. For the provision of the back-office services and support, ResREIT will pay an annual fee of 1.3% of gross receipts to Greenwin. This revised agreement is for a five-year term but is cancelable by ResREIT after November 30, 2004 with 90 days' written notice, at no cost to ResREIT. Greenwin may also terminate the contract after November 30, 2004 with 120 days' written notice, at no cost to ResREIT. The new agreement is terminable by either party upon a change of control of ResREIT before November 30, 2004. In this situation, the initiating party must provide 60 days' written notice, with ResREIT paying a termination fee of $600,000 to be prorated, as may be appropriate, during the period March 2004 to November 2004.

With the internalization of property management, the interests of front-line staff are further aligned with ResREIT's interests, thereby increasing unitholders' value and return. Management is optimistic that this initiative will produce immediate and long-term operational efficiencies and cost synergies, potentially improving distributable income by two to three cents per unit in 2004.

Results of Operations

Management's goal is to optimize operational cash flows through a strategy of accretive acquisitions, consistent internal growth and value-enhancing projects. With this methodology, management expects to generate and sustain cash distributions to ResREIT's unitholders.

In 2003, operating revenues bettered 2002 results by $11.5 million or 10.2%. Property net operating income rose by $3.6 million or 6.2% while the gross margin fell to 49.5% from 51.4%. Distributable income was $1.20 per unit versus $1.22, while cash flow was $1.23 compared to $1.24 in 2002.

A comparison of actual 2003 to 2002 financial performance:

	ACTUAL 2003	ACTUAL 2002
Operating revenues	**$ 124,764**	$ 113,254
Property net operating income (PNOI)	**$ 61,796**	$ 58,189
PNOI as a percentage of operating revenues	**49.5%**	51.4%
Net income	**$ 17,090**	$ 19,576
Net income as a percentage of operating revenues	**13.7%**	17.3%
Basic net income per unit	**$ 0.636**	$ 0.739

OPERATING REVENUES

Property rental revenue improved to $124.8 million from $113.3 million, a 10.2% increase over 2002 results. This solid growth arose predominantly through the acquisition of the 800 suites. However, internal growth was realized in the year, with a 3.0% increase over 2002 same-store revenues. ResREIT's year-end average rent rose slightly to $942 from $937, with a vacancy rate of 4.5% compared to 3.4%. Management continues to monitor and address the high vacancy level with its aggressive marketing plan.

While management strives to maintain high occupancy levels and achieve market rents, 2003 proved challenging for the entire apartment rental market, which experienced a vacancy rate of 3.8% in Toronto. Interest rates remained low during the year, increasing first-time buyers' demand for real estate ownership and producing a stellar year for the Canadian housing market with 217,800 housing starts. The condominium market contributed to greater apartment vacancies, particularly within the luxury rental segment, with possibly 30% to 40% of new condominium projects being offered for rent. However, as the number of first-time buyers dwindles and the oversupply of condominiums factor into appreciation prices and future construction, management is optimistic that occupancy rates will noticeably improve.

OPERATING EXPENSES

Total operating expenses exceeded 2002 costs by $7.9 million or 14.4%. This increase arose as ResREIT incurred greater than expected gas costs, as well as higher advertising expenses in the year.

There was an increase of 16.5% in administration costs, partially arising from higher legal fees, promotional expenses and unrecoverable rents. Management also invested $1.2 million in its marketing campaign to address vacancies, which remained at historically high levels throughout 2003. Utility costs increased by 24.3%, primarily from significant gas costs in the first quarter of the year. ResREIT's properties in Ontario also received hydro rebates from the government during 2003. As the new Liberal government has announced legislative revisions to the current 4.3-cent price cap on hydro rates, management is currently reviewing cost-saving options. Repairs and maintenance increased by 1.0% for the year. Management's accounting policy, with respect to in-suite renovations, is to expense costs under $2,000, except for tub surrounds, countertop, carpet and tile replacements, which are capitalized.

ResREIT's realty taxes increased by 11.1% over 2002 costs, due to acquisitions and a realty tax credit of $511,000 for 100 Wellesley Street East in the prior year.

With the recent internalization of the day-to-day property operations, management is optimistic that cost synergies will be realized, thus lowering year-over-year operational cost increases.

PROPERTY NET OPERATING INCOME

Property net operating income improved to $61.8 million from $58.2 million, a 6.2% increase over 2002 results. However, gross margins fell to 49.5% from 51.4%. This decline was due to first-quarter gas expenses along with increased bad debt provisions, suite renovation and advertising expenses. Management fully expects margins to improve in the coming months, as the recent internalization transaction should assist in creating economies of scale within the portfolio.

A comparison of actual 2003 to 2002 property net operating income:

	ACTUAL 2003	ACTUAL 2002
Operating revenues	**$ 124,764**	$ 113,254
Operating expenses	**$ 62,968**	$ 55,065
Property net operating income (PNOI)	**$ 61,796**	$ 58,189
PNOI as a percentage of operating revenues	**49.5%**	51.4%

SAME-STORE OPERATIONS

A measure of ResREIT's internal growth, the same-store portfolio consists solely of properties held at December 31, 2001, thereby allowing for equivalent annual comparatives for 2003 and 2002. Same-store operating revenues improved on 2002 results by $3.4 million or 3.0%, while total expenses grew by $4.1 million or 7.6%. As a result, property net operating income declined by $0.8 million or 1.3%, with gross margins falling to 49.1% from 51.2%. ResREIT was able to realize solid internal revenue growth in 2003 as average rents for December grew to $943 from $931. However, operating costs, including a $511,000 realty tax refund in 2002 for 100 Wellesley Street East, have offset the year-over-year growth.

A comparison of actual 2003 to 2002 same-store operating results:

	ACTUAL 2003	ACTUAL 2002
Operating revenues	**$ 114,283**	$ 110,912
Operating expenses	**$ 58,216**	$ 54,086
Property net operating income (PNOI)	**$ 56,067**	$ 56,826
PNOI as a percentage of operating revenues	**49.1%**	51.2%
Percentage of total suites[1]	**88.5%**	

[1] *Based on properties held at December 31, 2001.*

INTEREST EXPENSE

Interest expense, net of interest income, exceeded 2002 costs by $3.2 million or 14.4%. The increase in long-term debt interest partly arose from the mortgages assumed for acquisitions or refinanced by management. ResREIT's operating loan interest grew by $0.9 million as management employed the credit facility to fund the portfolio's capital projects and the new properties, in particular the 357-unit portfolio purchased in July. The mortgage for 141 Davisville Avenue, the largest building of that portfolio, was subsequently refinanced in December at an interest rate of 4.93%. In the coming months, management plans to refinance several mortgages with maturity dates in 2004 and 2005 to take advantage of the current low interest rates.

NET INCOME

In 2003, net income fell to $17.1 million from $19.6 million, a 12.7% decrease. On a per-unit basis, net income was 63.6 cents compared to 73.9 cents in 2002. Trust expenses grew by $0.4 million or 12.2% due partially to higher premiums for Directors' and Officers' insurance. Amortization expenses exceeded 2002 costs by $2.5 million or 18.9%, as 800 suites were added and $15.1 million was invested in capital improvements in 2003.

The following chart summarizes net income for the last eight quarters:

2003	Q1	Q2	Q3	Q4	TOTAL
Operating revenues	$ 29,795	$ 31,013	$ 31,915	$ 32,041	$124,764
Net income	$ 2,298	$ 5,659	$ 5,681	$ 3,452	$ 17,090
Basic net income per unit	$ 0.086	$ 0.212	$ 0.211	$ 0.128	$ 0.636
Diluted net income per unit	$ 0.085	$ 0.211	$ 0.211	$ 0.128	$ 0.634

2002	Q1	Q2	Q3	Q4	TOTAL
Operating revenues	$ 27,358	$ 28,057	$ 28,390	$ 29,449	$113,254
Net income	$ 3,613	$ 5,382	$ 5,772	$ 4,809	$ 19,576
Basic net income per unit	$ 0.137	$ 0.203	$ 0.217	$ 0.180	$ 0.739
Diluted net income per unit	$ 0.135	$ 0.202	$ 0.216	$ 0.179	$ 0.734

DISTRIBUTABLE INCOME

Distributable income and cash flow from operations ("CFFO") are not defined under Canadian GAAP and accordingly should not be viewed as alternatives to net income. However, they are necessary and crucial tools for real estate entities to measure their performance. Management calculates distributable income by adding back to net income the amortization costs, except on deferred financing fees, and unusual or non-recurring items. CFFO is calculated by adding back to distributable income amortization on deferred financing fees. ResREIT's definition of these measures may differ from other companies.

For the year, distributable income was $1.20 per unit versus $1.22 in 2002, while CFFO was $1.23 per unit compared to $1.24. Increased home ownership demand, a cold winter and unexpected costs adversely affected ResREIT's performance in 2003. However, despite these conditions, unitholders received another increase in monthly cash distributions during the year, for an annual distribution of $1.07 per unit. Management is confident that unitholders will continue to receive stable and growing distributions in the future, and that sufficient cash will still be available to fully finance any value-added capital projects. ResREIT's payout ratio from CFFO was 87.0% at year end compared to 84.7% in 2002.

A comparison of actual 2003 to 2002 distributable income:

	ACTUAL 2003	ACTUAL 2002
Net income	**$ 17,090**	$ 19,576
Add: Amortization *(excluding deferred financing fees)*	**$ 14,760**	$ 12,692
Add: Amortization of leasing costs	**$ 445**	$ 120
Distributable income	**$ 32,295**	$ 32,388
Distributable income per unit	**$ 1.20**	$ 1.22
Add: Amortization of deferred financing fees	**$ 670**	$ 543
Cash flow from operations (CFFO)	**$ 32,965**	$ 32,931
CFFO per unit	**$ 1.23**	$ 1.24

FUNDS FROM OPERATIONS

Funds from operations ("FFO") is a measure defined in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies and not Canadian GAAP. It is designed to quantify the funds generated from the real estate entity before reinvestment in the business, debt repayment or any capital transactions.

A comparison of actual 2003 to 2002 funds from operations:

	ACTUAL 2003	ACTUAL 2002
Net income	**$ 17,090**	$ 19,576
Add: Amortization *(excluding deferred financing fees)*	**$ 14,760**	$ 12,692
Add: Amortization of leasing costs	**$ 445**	$ 120
Add: Leasing costs	**$ (532)**	$ (223)
Add: Changes in tenant receivables, net of allowance for bad debts	**$ 388**	$ 52
Add: Changes in non-cash operating assets and liabilities	**$ 3,230**	$ (477)
Total funds from operations	**$ 35,381**	$ 31,740
Total funds from operations per unit	**$ 1.32**	$ 1.20

RELATED PARTIES TRANSACTIONS

When ResREIT commenced operations, management had contracted with Greenwin to oversee the Trust's operations under a property management agreement. At year end, Greenwin had a 13.0% ownership stake in ResREIT, with two Trustees that are related to Greenwin presiding on ResREIT's Board of Trustees. It is Greenwin's responsibility to apply its professional property management expertise to achieve market rents and create operational efficiencies, among other duties.

For 2003, ResREIT paid $4.3 million compared to $3.9 million for property management services in 2002. The manager has also received $257,000 in supervision fees for construction management services.

On February 29, 2004, ResREIT terminated its current property management agreement for $1.8 million. Under a new agreement, Greenwin will continue to provide accounting and administrative support for ResREIT at an annual fee of 1.3% of gross receipts for a five-year period. Management assumed responsibility for all property management functions and is hopeful that this new structure will provide strong returns for ResREIT's unitholders. Greenwin will continue to have the right to appoint one Trustee to ResREIT's Board.

Assets, Liabilities and Unitholders' Equity

INCOME-PRODUCING PROPERTIES AND PREPAID RENTS

ResREIT's year-end portfolio consisted of 10,890 residential units with gross property value growing to $716.6 million from $639.1 million, a 12.1% increase. On a per-suite basis, gross property value is $66,000, more than 50% below current replacement costs, which range from $150,000 to $200,000.

Adhering to ResREIT's policy of acquiring buildings situated in areas with current and future positive market conditions, management added 800 high-quality residential units in 2003. In March, ResREIT purchased the Bois-Franc Residential Project, an 11-building, 235-suite luxury complex at a cost of $23.0 million, financed with first and second mortgages totalling $18.0 million. Situated in a beautiful central location in Saint-Laurent, the complex offers a quality lifestyle for renters-by-choice with its many nearby amenities and picturesque European setting. In May, 4760 Côte-des-Neiges, a 125-suite building located in Montreal, was acquired for $7.1 million, which is less than 40% of its replacement cost. Management is optimistic these two well-positioned Quebec properties will deliver good value to the ResREIT portfolio. In June, management obtained 640 Guelph Line, a 7-storey, 83-suite building located in Burlington, furthering ResREIT's presence in a growing urban centre in Ontario. The purchase price for the property was $4.8 million, with management assuming a mortgage of $3.8 million. The final acquisition in 2003 was a $25.5 million, 357-unit portfolio in Toronto, consisting of 141 Davisville Avenue, 46 Foxden Road and 110 Cottonwood Drive. This acquisition strengthens ResREIT's presence in its core market, which management believes will generate future economies of scale for ResREIT's entire portfolio.

A summary of the acquisitions in 2003 is as follows:

	ACQUISITION DATE	# OF SUITES	ACQUISITION PRICE	MORTGAGE
Bois-Franc Residential Project, *Quebec*	March 23	235	$ 23,000	$ 17,961
4760 Côte-des-Neiges, *Quebec*	May 13	125	7,125	5,746
640 Guelph Line, *Ontario*	June 6	83	4,800	3,770
46 Foxden Road and 110 Cottonwood Drive, *Ontario*	July 22	44	2,900	—
141 Davisville Avenue, *Ontario*	July 22	313	22,600	18,518
TOTAL		**800**	**$ 60,425**	**$ 45,995**

ResREIT has land leases on three of its Western Canada properties, with expiry dates ranging from March 31, 2045 to March 31, 2070. These leases generally provide for a nominal annual rental and an additional rental calculated from the results of property operations.

ResREIT's minimum annual rentals under these land leases, exclusive of participation payments are as follows:

	ANNUAL RENTALS
2004[1]	$ 733
2005	758
2006	773
2007	773
2008 and thereafter	773

[1] *Rental payments under one land lease will be renegotiated in 2004 under the terms of the land lease.*

ResREIT has 35-year term leases on several of its properties, whereby the full rent of the building was prepaid on the acquisition date. On the anniversary of the lease commencement date, beginning with the 25th year, ResREIT has the exclusive option to purchase the property at a price stipulated in the lease. The option price may be reduced by the unamortized portion of capital expenditures in the last 10 years of the lease. At the end of 2003, management estimated that the present value of the option prices in year 35 of the lease, less estimated capital expenditures, is between $15.0 and $26.0 million, using discount rates of between 8.0% and 10.0%.

The following chart summarizes the option price in year 35 of each lease:

	OPTION PRICE
33 Davisville Avenue, *Toronto*	$ 15,860
111 Davisville Avenue, *Toronto*	31,543
77 Huntley Street, *Toronto*	44,320
88 Isabella Street, *Toronto*	6,300
500 Murray Ross Parkway, *Toronto*	20,817
10 San Romanoway, *Toronto*	30,115
411 Duplex Avenue, *Toronto*	47,790
33 Orchardview Boulevard, *Toronto*	22,085
1004 Lawrence Avenue East, *Toronto*	6,766
20 Shallmar Boulevard, *Toronto*	17,000
124 Broadway Avenue, *Toronto*	9,500
6 John Street, *Oakville*	13,950
30 Livonia Place, *Toronto*	17,000
2076 Sherobee Road, *Mississauga*	36,000
Chatsworth Place, *Toronto*	20,000
TOTAL	**$ 339,046**

CAPITAL EXPENDITURES

Management's primary goal is to provide unitholders with stable cash distributions, while retaining sufficient cash to fund ResREIT's capital expenditure program, designed to attract and retain residents and ensure the portfolio's longevity. Management aims to be self-sufficient in financing the various value-creation projects within the next two to three years, passing the additional operating savings to ResREIT's unitholders.

For the year, residential capital expenditures, including suite renovations and equipment additions, amounted to $15.1 million. Heating plant replacements, totalling $0.8 million were expended at 1055 Bloor Street East, 25 Bay Mills Boulevard and 30 Livonia Place. Corridors were also upgraded at several properties, including Park Royal Village, 2076 Sherobee Road and Chatsworth Place. Other 2003 investments included water efficiency retrofit, elevator modernization and riser replacement throughout the portfolio.

During 2003, ResREIT invested in suite renovations totalling $4.0 million as part of its resident-retention program. Management's suite renovation policy is to capitalize total renovations exceeding $2,000 on a per-suite basis, as well as all tub surrounds, countertop, carpet and tile replacements.

As ResREIT completes its five-year program for the initial portfolio, management is reviewing initiatives that will attract and retain residents. Management forecasts $8.0 to $10.0 million to be spent in 2004, including exterior concrete and corridor upgrades.

OTHER ASSETS

During 2003, management adopted the Canadian Institute of Chartered Accountants' ("CICA") new recommendations on accounting for unit purchase loans receivable. Such loans under the unit purchase plan are now required to be presented as deductions from unitholders' equity, except in certain circumstances, with subsequent loan repayments being credited to unitholders' equity. As such, ResREIT's loans receivable was nil at the end of 2003. At year end, there are 168,394 units securing loans outstanding under the unit purchase plan totalling $2.1 million.

Accounts receivable decreased by $1.8 million for the year, partially due to a write-off of past tenants' bad debts. Management believes that this one-time transaction was prudent for ResREIT and is continuously reviewing its collections policy. At year end, the allowance for bad debts was $1.8 million compared to $1.0 million in 2002, a 76.8% increase.

Deferred financing costs, net of amortization, increased by $1.8 million. These costs, which relate to mortgage application, CMHC insurance and legal expenses, are generally deferred and amortized over the terms of the mortgage. However, for mortgages with loan-to-book values greater than 75%, CMHC insurance fees are deferred and amortized over the 25-year amortization period of the mortgage.

MORTGAGES PAYABLE

Mortgages payable rose to $421.5 million in 2003 from $376.6 million, an 11.9% increase, primarily due to new mortgages that totalled $46.0 million relating to acquisitions. Management is currently floating 3.7% of its long-term debt, with a portfolio average interest rate of 6.1% at year end.

The quarterly average interest rate and average term to maturity for 2003 and 2002 mortgages are as follows:

	AVERAGE INTEREST RATE	AVERAGE TERM TO MATURITY (YEARS)
December 31, 2003	6.1%	5.4
September 30, 2003	6.2%	5.7
June 30, 2003	6.2%	5.8
March 31, 2003	6.2%	5.4
December 31, 2002	6.2%	5.6
September 30, 2002	6.3%	5.9
June 30, 2002	6.3%	5.7
March 31, 2002	6.3%	5.9

As a component of ResREIT's active asset management strategy, mortgages on existing properties were refinanced during the year with more attractive terms, to strengthen the portfolio's financial position. In December, the mortgage on 5200 Lakeshore Road was renewed at an interest rate of 5.14%, down from a rate of 5.60%. Subsequent to year end, management repaid the mortgage on 505 Locust Street three months early to reduce the interest rate to 5.09% from 7.62%. In February 2004, a CMHC-insured first mortgage of $10.8 million for 33 Davisville Avenue was negotiated, with a rate of 5.05% and maturity date of March 1, 2011. The original mortgage was floating based on the prime lending rate less 0.75%. Management is currently reviewing mortgages that are maturing within the next two years, which represent 5.8% of total mortgages.

Including the new financings, ResREIT's year-end loan-to-gross-property value is 63.0%, compared to 60.0% in 2002. ResREIT's Declaration of Trust limits total indebtedness to 60% or lower of the gross book value of ResREIT's assets unless a majority of the Trustees, in their discretion, determine that the maximum amount of indebtedness shall be based on the appraised value of the real properties of ResREIT. The Trustees have determined that the maximum indebtedness should not exceed 75% of the market value of each real property.

ResREIT's minimum future principal payments are as follows:

	PRINCIPAL PAYMENTS[1]	% OF TOTAL MORTGAGES
2004	$ 22,014	5.2
2005	22,348	5.3
2006	50,588	12.0
2007	61,393	14.6
2008 and thereafter	265,131	62.9
TOTAL	**$ 421,474**	**100.0**

[1] *Includes the repayment of any outstanding balances on the respective maturity date.*

OTHER LIABILITIES

ResREIT's bank loan payable, net of bank overdraft, increased by $22.5 million for the year. Management has utilized $31.0 million of the $44.5 million credit facility, increasing ResREIT's floating-rate debt to 10.0% of total debt, as permitted by the Declaration of Trust.

UNITHOLDERS' EQUITY

Unitholders' equity was $198.6 million compared to $207.4 million at the end of 2002, with the number of units outstanding growing to 27,174,755 from 26,777,177 units.

ResREIT has two stock-based compensation plans, a unit option plan and a unit purchase plan. Under the unit option plan, 202,100 options were exercised during 2003 with proceeds of $2.1 million. At the end of the year, there were 282,600 options outstanding with a weighted average exercise price of $11.77 and average remaining contractual life of 3.24 years. Under the unit purchase plan, 33,336 units were issued to employees and Trustees during 2003. This issue generated loans receivable of $0.5 million, which was treated as a deduction from unitholders' equity, in accordance with Canadian GAAP.

ResREIT's distribution reinvestment plan remained attractive as 163,742 units were issued during the year, with 768,426 units participating in the plan at year end. Total reinvestment proceeds were $2.4 million, or 8.3% of total cash distributions for the year. Under this plan, participants received units at a 3.85% effective discount to the five-day weighted average trading price immediately preceding the relevant distribution date.

The quarterly closing prices for ResREIT units on the Toronto Stock Exchange are as follows:

	2003	2002	2001
March 31	**$ 13.35**	$ 15.00	$ 13.25
June 30	**$ 14.25**	$ 14.50	$ 12.99
September 30	**$ 14.89**	$ 13.67	$ 13.90
December 31	**$ 15.13**	$ 13.49	$ 14.97

Risks and Uncertainties

ResREIT operates in the residential real estate rental market and thus is exposed to various risks that are attached to all income property investments. These risks can be either operating, financing, investing or political in nature.

OPERATING RISK

Operating risk can relate to both revenues and expenses. Management aims to maintain low vacancies, thereby maximizing rental income. However, this can be affected by several factors, including market fluctuations and other competitors. With the current low interest rate environment, several tenants have become first-time home buyers, pushing ResREIT's vacancy rate to 4.5% at year end. ResREIT is addressing this risk by improving relations with its residents, providing rental incentives and diversifying the acquisition locations across Canada, as evidenced by the new Quebec properties.

Utility costs are also subject to market activity, potentially increasing costs for any company. Currently, ResREIT is floating gas prices, as management feels prices remain high, and continues to assess the situation to ascertain if fixing prices would be beneficial to the portfolio.

INVESTING RISK

Investing risk relates to the availability and sustainability of the rental building. With per-suite replacement costs in the $150,000 to $200,000 range, quality properties have been scarce or priced at a premium. It is ResREIT's policy to purchase assets that will be accretive for the portfolio, and not acquired for the sole purpose of growth. By doing so, management feels the cash flow generated from the property should be sufficient to fund capital improvements without impacting on distributions to the unitholders.

FINANCING RISK

Financing risk refers mainly to ResREIT's sources of capital and its related cost. ResREIT operates in a capital-intensive industry, investing millions annually in the portfolio to ensure its longevity. Management funds these expenditures generally with long-term debt, thereby mitigating interest rate fluctuations. At December 31, 2003, ResREIT's average term to maturity is 5.4 years, with no more than 18% of its mortgages maturing in any one year. Management renegotiated several mortgages in 2003, taking advantage of low lending rates to reduce interest costs. ResREIT's Declaration of Trust does specify restrictions on management's borrowing and investing activities to assure the Trust's financial stability.

POLITICAL RISK

ResREIT is a publicly traded entity exposed to legislation that may be revised depending on the government. As the Trust owns properties in Ontario, it is governed by the *Tenant Protection Act* ("TPA"), which came into force on June 17, 1998. The TPA permits owners of rental properties to charge the current market rent to a new tenant when a suite turns over. However, the tenant would then be locked in at that rent, generally receiving annual increases based on statutory guidelines. In 2003, a new government took office in Ontario, stating its plan to reassess certain provisions in the TPA, which could have an adverse impact on ResREIT's growth. Management is optimistic that the majority of its rents would be near market rates if and when any legislation revisions occur.

The new government has also expressed support for technical legislative changes to unitholder liability in publicly traded trusts. The possibility of unitholder liability is remote; however, a risk does exist, which may have reduced interest or investment by potential investors in the past. This perception may have hindered ResREIT's access to capital markets, limiting its chance to pursue certain properties. Management is hopeful that statutory unitholder limited liability will invite more interest and capital to ResREIT.

Significant Accounting Policies and Estimates

The consolidated financial statements of ResREIT are prepared in accordance with Canadian GAAP. ResREIT's significant accounting policies are outlined in note 2 to the consolidated financial statements, beginning on page 27 of this annual report. In the preparation of these statements, estimates and assumptions may have been used, based on management's best judgment. As such, material differences may arise.

Management considers the following ResREIT accounting policies to be significant.

INCOME-PRODUCING PROPERTIES AND PREPAID RENTS

ResREIT values its income-producing properties at the lower of cost less accumulated amortization and net recoverable amount. Buildings have been amortized using a 5% sinking fund basis. Effective January 1, 2004, in accordance with the CICA's recommendation, management revised its amortization method for buildings. On a going-forward basis, management will use the straight-line method based on the useful life of the building. Capital improvements, including suite renovations and equipment, are capitalized with the related amortization calculated using the straight-line method over the item's useful life.

ResREIT holds a leasehold interest in certain properties under 35-year term leases. Management uses the straight-line method for the amortization of these prepaid rents. In addition, capital upgrades relating to these properties are capitalized with the amortization based on the straight-line method.

Management generally bases its estimates on industry standards. However, these estimates may not necessarily reflect the item's actual useful life or its fair market value. For a detailed summary of the income-producing properties and prepaid rents, see note 3 and note 4 to the consolidated financial statements.

UNIT PURCHASE PLAN

ResREIT revised its accounting policy on loans receivable relating to units issued under ResREIT's unit purchase plan effective fiscal 2003. Based on the CICA's accounting recommendation for unit purchase loans receivable from employees and Trustees, management has deducted such loans from unitholders' equity. Subsequent repayments on the loans will be credited to unitholders' equity. For a detailed summary of the unit purchase plan, see note 5 to the consolidated financial statements.

UNIT OPTION PLAN

In 2003, management adopted the CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments", to account for ResREIT's unit option plan. This section requires the fair-value based method of accounting to be used for all stock-based compensation awards granted after December 31, 2001, whereby such awards must be charged against net income. ResREIT has not granted any awards after December 31, 2001 that meet the definition of stock-based compensation. For a detailed summary of the unit option plan, see note 9 to the consolidated financial statements.

Outlook

ResREIT commenced 2003 with the objective of acquiring accretive purchases, continuing portfolio enhancements and growing unit value. The year proved challenging for the residential rental sector, particularly during the first half, which had an impact on ResREIT's performance. Rental markets continued to experience record high vacancies arising from the low interest rate environment and soaring condominium sales. Despite the unfavourable market factors, ResREIT finished the year with a solid performance, and is ready to build on its 2003 accomplishments in the coming year.

With the prospects of a strong Canadian economy and a downturn in condominium construction, ResREIT's financial performance should grow in 2004, providing unitholders with solid value growth. Management will strive to improve occupancy levels through its resident- retention program, with an occupancy goal of 96.5% for 2004. With the recent property management internalization, ResREIT should realize operational synergies in the short and long term, while still providing renters-by-choice with a better living experience.

As the competition grows for acquisitions from institutions, developers and other investors, purchase prices have been steadily increasing. However, management will continue with its proven acquisition strategy and pursue assets that have been deemed to be accretive and strategic additions to the highly regarded ResREIT portfolio. Value-added capital projects will also be completed, which should generate internal growth for the future.

Management is optimistic that along with challenges, 2004 will bring about new rewards for both residents and unitholders. ResREIT will continue to employ active asset and property management initiatives to ensure its "Quality Living, Quality Investment" mandate.

Three-Year Summary

IN THOUSANDS, EXCEPT WHERE INDICATED

	2003	2002	2001
OPERATIONS SUMMARY			
Operating revenues	$ 124,764	$ 113,254	$ 106,402
Operating expenses	$ 62,968	$ 55,065	$ 53,084
Property net operating income	$ 61,796	$ 58,189	$ 53,318
Percentage of operating revenues	49.5%	51.4%	50.1%
Trust expenses	$ 3,446	$ 3,072	$ 3,852
Amortization expenses	$ 15,875	$ 13,355	$ 11,337
Interest expenses	$ 25,385	$ 22,186	$ 21,131
Net income (loss)	$ 17,090	$ 19,576	$ (4,672)
Distributable income	$ 32,295	$ 32,388	$ 27,838
Cash flow from operations	$ 32,965	$ 32,931	$ 28,335
ASSET SUMMARY			
Number of suites	10,890	10,090	9,643
Gross book value of property assets	$ 716,591	$ 639,109	$ 590,625
Unitholders' equity	$ 198,627	$ 207,434	$ 205,516
Market capitalization	$ 411,154	$ 361,224	$ 387,251
Units issued and outstanding	27,174,755	26,777,177	25,868,458
Weighted average number of units outstanding	26,858,027	26,491,569	23,834,593
Weighted average number of units outstanding assuming dilution	26,940,552	26,652,485	24,164,378
Average rent	$ 942	$ 937	$ 894
Vacancy rate	4.5%	3.4%	2.2%
Weighted average interest rate	6.1%	6.2%	6.4%
Weighted average term to maturity	5.44 yrs	5.63 yrs	6.04 yrs
Loan-to-gross property book value	63.0%	60.0%	59.0%
PER-UNIT SUMMARY			
Year-end price	$ 15.13	$ 13.49	$ 14.97
Distributions per unit	$ 1.07	$ 1.05	$ 1.03
Basic net income (loss) per unit	$ 0.64	$ 0.74	$ (0.20)
Basic distributable income per unit	$ 1.20	$ 1.22	$ 1.17
Basic cash flow from operations per unit	$ 1.23	$ 1.24	$ 1.19
Diluted net income per unit	$ 0.63	$ 0.73	$ (0.19)
Diluted distributable income per unit	$ 1.20	$ 1.22	$ 1.15
Diluted cash flow from operations per unit	$ 1.22	$ 1.24	$ 1.17
Payout ratio (cash flow from operations)	87.0%	84.7%	86.6%
Tax deferral	68.1%	69.4%	76.0%
Yield	7.1%	7.8%	6.9%
Cap rate	8.9%	9.5%	9.2%
Annual return	20.1%	(2.9%)	26.0%
Average annual return since 1998	18.5%	16.7%	22.1%
Cumulative compounded return	140.4%	99.4%	105.5%

Management's Responsibility for Financial Reporting

The management of ResREIT is responsible for the preparation, integrity and fair presentation of the financial statements and all other information contained in the Annual Report.

The accompanying financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

The Trust maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality. PricewaterhouseCoopers LLP, the independent auditors, have examined the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. The Auditors' Report is set forth herein.

The Board of Trustees is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board carries out this responsibility through the Audit Committee. These financial statements have been reviewed and approved by the Board of Trustees and its Audit Committee. The auditors have direct and full access to the Audit Committee.

DINO CHIESA
PRESIDENT & CHIEF EXECUTIVE OFFICER

M Kagan

MAURICE KAGAN
CHIEF FINANCIAL OFFICER & SECRETARY

Auditors' Report

TO THE UNITHOLDERS OF RESIDENTIAL EQUITIES REAL ESTATE INVESTMENT TRUST

We have audited the consolidated balance sheets of Residential Equities Real Estate Investment Trust ("ResREIT") as at December 31, 2003 and 2002 and the consolidated statements of income and cash flow for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of ResREIT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of ResREIT as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years ended December 31, 2003 and 2002 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS
TORONTO, ONTARIO
FEBRUARY 6, 2004

Consolidated Balance Sheet

AS AT DECEMBER 31 (IN THOUSANDS)

	2003	2002
ASSETS		
Income-producing properties (NOTE 3)	**$ 471,172**	$ 406,971
Prepaid rents (NOTE 4)	**184,392**	186,316
Loans receivable from employees and Trustees (NOTE 5)	**—**	1,945
Funds held in trust	**2,107**	300
Cash and short-term investments	**440**	596
Accounts receivable	**1,541**	3,308
Deferred costs (NOTE 6)	**6,712**	4,941
Prepaid expenses	**2,567**	2,742
	$ 668,931	$ 607,119
LIABILITIES		
Mortgages payable (NOTE 7)	**$ 421,474**	$ 376,586
Bank loan payable (NOTE 8)	**29,718**	6,668
Accounts payable and other liabilities	**9,600**	7,530
Security deposits and last month's rent	**9,512**	8,901
	470,304	399,685
UNITHOLDERS' EQUITY		
Issued and outstanding – 27,174,755 units (2002 – 26,777,177)		
Unitholders' equity, beginning of year	**207,434**	205,516
Net income for the year	**17,090**	19,576
Issuance of units (NOTE 9)	**2,916**	10,205
Public offering costs	**—**	(14)
Distributions to unitholders (NOTE 10)	**(28,813)**	(27,849)
Unitholders' equity, end of year	**198,627**	207,434
	$ 668,931	$ 607,119

See accompanying notes to Consolidated Financial Statements

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES

ROBERT D. BROWN
CHAIR

EDWIN F. HAWKEN
TRUSTEE

Consolidated Statement of Income

FOR THE YEARS ENDED DECEMBER 31 (IN THOUSANDS, EXCEPT PER-UNIT AMOUNTS)

	2003	2002
OPERATING REVENUES		
Property rental income	**$ 124,764**	$ 113,254
OPERATING EXPENSES		
Realty taxes	**18,122**	16,307
Operating expenses	**40,551**	34,825
Property management fees (NOTE 12)	**4,295**	3,933
	62,968	55,065
PROPERTY NET OPERATING INCOME	**61,796**	58,189
TRUST EXPENSES (NOTE 13)	**3,446**	3,072
INCOME BEFORE INTEREST AND AMORTIZATION EXPENSES	**58,350**	55,117
AMORTIZATION EXPENSE		
Amortization	**14,760**	12,692
Amortization of deferred financing and leasing costs	**1,115**	663
INCOME BEFORE INTEREST EXPENSE	**42,475**	41,762
INTEREST EXPENSE		
Mortgage interest	**24,219**	21,972
Interest expense	**1,224**	299
Interest income	**(58)**	(85)
	25,385	22,186
NET INCOME	**$ 17,090**	$ 19,576
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING (NOTE 10)	**26,858,027**	26,491,569
BASIC NET INCOME PER UNIT (NOTE 10)	**$ 0.636**	$ 0.739
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING ASSUMING DILUTION (NOTE 10)	**26,940,552**	26,652,485
DILUTED NET INCOME PER UNIT (NOTE 10)	**$ 0.634**	$ 0.734

See accompanying notes to Consolidated Financial Statements

Consolidated Statement of Cash Flow

FOR THE YEARS ENDED DECEMBER 31 (IN THOUSANDS, EXCEPT PER-UNIT AMOUNTS)

	2003	2002
OPERATING ACTIVITIES		
Net income for the year	$ 17,090	$ 19,576
Items not affecting cash:		
Amortization	14,760	12,692
Amortization of leasing costs	445	120
Funds from operations	32,295	32,388
Leasing costs	(532)	(223)
Changes in tenant receivables, net of allowance for bad debts	388	52
Changes in non-cash operating assets and liabilities	3,230	(477)
TOTAL FUNDS FROM OPERATIONS	35,381	31,740
INVESTING ACTIVITIES		
Income-producing property acquisitions	(61,813)	(5,777)
Prepaid rent acquisitions	(11)	(33,739)
Capital expenditures	(14,120)	(8,772)
TOTAL FUNDS USED IN INVESTING	(75,944)	(48,288)
FINANCING ACTIVITIES		
Proceeds of new mortgage financing	78,663	69,302
Mortgage principal repayments	(33,775)	(32,347)
Deferred costs	(1,771)	(651)
Increase (decrease) in bank loan payable	23,050	(2,058)
Net proceeds from issuance of units	2,463	6,908
Public offering costs	—	(14)
Distributions to unitholders	(26,416)	(26,497)
TOTAL FUNDS FROM FINANCING	42,214	14,643
NET INCREASE (DECREASE) IN CASH	1,651	(1,905)
CASH, BEGINNING OF YEAR	896	2,801
CASH, END OF YEAR	$ 2,547	$ 896
Cash is represented by:		
Funds held in trust	$ 2,107	$ 300
Cash and short-term investments	440	596
	$ 2,547	$ 896
INTEREST PAID DURING THE YEAR	$ (25,060)	$ (22,148)

See accompanying notes to Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Note 1 Organization of Trust

Residential Equities Real Estate Investment Trust ("ResREIT") is a closed-end real estate investment trust created for the benefit of the unitholders pursuant to the Declaration of Trust dated January 28, 1998, as amended. On February 16, 1998, ResREIT completed an initial public offering of units and acquired 33 residential buildings, comprised of 6,838 residential units and 209,042 square feet of commercial space across Canada. At December 31, 2003, ResREIT's portfolio consisted of 67 properties, comprised of 10,890 residential units and 225,103 square feet of commercial space.

Note 2 Summary of Significant Accounting Policies

BASIS OF PRESENTATION

ResREIT's financial statements are prepared in conformity with Canadian generally accepted accounting principles. ResREIT's accounting policies and standards of financial disclosure are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies, of which ResREIT is a member.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of ResREIT and its wholly owned subsidiary, Residential Equities Limited Partnership. All inter-company transactions have been eliminated.

INCOME-PRODUCING PROPERTIES

Income-producing properties are stated at the lower of cost less accumulated amortization and net recoverable amount. Cost of the properties includes all amounts relating to the acquisition and improvement of the properties. Costs associated with upgrading the existing facilities, other than ordinary repairs and maintenance, are capitalized as project improvements. The net recoverable amount represents the undiscounted, estimated future net cash flow expected to be received from the ongoing use of the property plus its residual worth, and is intended to determine recovery of an investment and is not an expression of a property's fair market value.

Amortization of buildings is recorded using a 5% sinking fund basis to fully amortize the cost of buildings over 40 years. Capital improvements are amortized on a straight-line basis over their estimated useful lives ranging from three to 25 years. Equipment is amortized on a straight-line basis over the estimated useful life, ranging from three to 20 years.

PREPAID RENTS

Rents prepaid on acquisition of leasehold interests are deferred and amortized on a straight-line basis over the 35-year term of the leases. Prepaid rents include all costs relating to the rental of the properties plus all costs associated with upgrading the existing facilities, other than ordinary repairs and maintenance. These costs are amortized on a straight-line basis over their estimated useful lives, ranging from two to 32 years.

FUNDS HELD IN TRUST

Included in funds held in trust is an amount of $2,107 (December 31, 2002 – $300) to be used for capital expenditures.

CASH AND SHORT-TERM INVESTMENTS

Short-term investments have maturities of three months or less.

DEFERRED FINANCING COSTS

Financing costs are deferred and amortized on a straight-line basis over the terms of the related financing, ranging from one to 14 years. CMHC insurance fees relating to mortgages with loan-to-book values greater than 75% are deferred and amortized over the 25-year amortization period of the mortgages.

DEFERRED LAND LEASE COSTS

Legal and valuation costs incurred on the renegotiation of a land lease are deferred and amortized on a straight-line basis over the 20-year period of the lease.

DEFERRED LEASING COSTS

Leasing costs such as commissions, tenant inducements and free rent, when incurred, are deferred and amortized on a straight-line basis over the term of the related leases.

NET INCOME PER UNIT

Basic net income per unit is calculated by dividing the net income by the weighted average number of units outstanding for the year. Under the unit purchase plan, units securing the related loans receivable have not been treated as outstanding for purposes of calculating basic net income per unit. Diluted net income per unit reflects the potential dilution that could occur if units were exercised under the unit option plan using the treasury stock method. Under the unit purchase plan, units securing the related loans receivable have been treated as options for purposes of calculating diluted net income per unit.

STOCK-BASED COMPENSATION PLANS

ResREIT has two stock-based compensation plans: a unit option plan (see note 9) and a unit purchase plan (see note 5). ResREIT accounts for its grants in accordance with the fair-value-based method of accounting for stock-based compensation. This accounting will omit the effect of awards granted before January 1, 2002. No awards were granted after December 31, 2001 that meet the criteria of

stock-based compensation and accordingly, no compensation expense has been charged against net income. Any consideration received on the exercise of unit options or the issuance of units is credited to unitholders' equity. If units or unit options are repurchased from employees and Trustees, the excess consideration paid over the carrying amount of the units or unit options cancelled is charged to unitholders' equity.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported year. Actual results could differ from these estimates.

FINANCIAL INSTRUMENTS

ResREIT's funds held in trust, cash and short-term investments, accounts receivable, prepaid expenses, bank loan payable, accounts payable and other liabilities, security deposits and last month's rent are carried at cost, which approximates their fair value due to their short-term nature.

note 3

Income-Producing Properties

2003	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	$ 61,084	$ —	$ 61,084
Buildings	399,743	16,518	383,225
Capital improvements	26,702	5,939	20,763
Suite upgrades	5,424	2,803	2,621
Equipment	3,732	864	2,868
Leasing costs	841	398	443
Head office capital assets	298	130	168
	$ 497,824	$ 26,652	$ 471,172

2002	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	$ 51,812	$ —	$ 51,812
Buildings	347,202	12,745	334,457
Capital improvements	20,508	3,974	16,534
Suite upgrades	2,967	1,711	1,256
Equipment	2,987	622	2,365
Leasing costs	512	160	352
Head office capital assets	250	55	195
	$ 426,238	$ 19,267	$ 406,971

Prepaid Rents

note 4

2003		COST		ACCUMULATED AMORTIZATION		NET BOOK VALUE
Leasehold interests	$	194,388	$	26,949	$	167,439
Leasehold improvements		18,183		4,857		13,326
Suite upgrades		3,275		1,691		1,584
Equipment		2,555		630		1,925
Leasing costs		366		248		118
	$	218,767	$	34,375	$	184,392

2002		COST		ACCUMULATED AMORTIZATION		NET BOOK VALUE
Leasehold interests	$	194,377	$	21,396	$	172,981
Leasehold improvements		14,457		3,514		10,943
Suite upgrades		1,751		1,136		615
Equipment		2,123		468		1,655
Leasing costs		163		41		122
	$	212,871	$	26,555	$	186,316

Unit Purchase Plan and Loans Receivable from Employees and Trustees

note 5

At the annual and special meeting of ResREIT held on June 5, 2001, unitholders approved the creation of a unit purchase plan (the "Plan"), allowing for the issuance of a maximum of 500,000 units to employees and Trustees. In accordance with the Plan, ResREIT has provided interest-free loans to participants for a term of five years. The units are held in trust for the participants by the agent of the Plan as security for the loans. Participants are generally required to allocate 75% of monthly distributions to pay down the loan principal. Effective fiscal 2003, ResREIT adopted the new recommendations of the Canadian Institute of Chartered Accountants on accounting for unit purchase loans receivable from employees and Trustees. Such loans are now required to be presented as deductions from unitholders' equity, except in certain circumstances. Accordingly, and notwithstanding that ResREIT considers the loans collectible, loans totalling $1,945 as at January 1, 2003 are no longer presented as loans receivable from employees and Trustees, but as a deduction from unit capital. Subsequent loan repayments are credited to unitholders' equity.

As at December 31, 2003, 168,394 units had loans outstanding under the Plan totalling $2,057 as follows:

	NUMBER OF UNITS		PRICE PER UNIT
Balance, beginning of year	140,058		
Issued during the year	33,336	$	14.95
Loan repayments during the year	(5,000)	$	13.84
Balance, end of year	168,394		

As at December 31, 2002, 140,058 units had loans outstanding under the Plan totalling $1,945 as follows:

	NUMBER OF UNITS	PRICE PER UNIT
Balance, beginning of year	Nil	
Issued during the year:		
February 2002	107,700	$ 14.76
September 2002	5,000	$ 13.84
December 2002	27,358	$ 13.35
Balance, end of year	140,058	

The market value of the underlying units acting as security for the loans outstanding was $2,548 (2002 – $1,889).

note 6

Deferred Costs

2003	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Financing fees	$ 9,108	$ 2,442	$ 6,666
Land lease fees	53	7	46
	$ 9,161	$ 2,449	$ 6,712

2002	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Financing fees	$ 6,667	$ 1,774	$ 4,893
Land lease fees	53	5	48
	$ 6,720	$ 1,779	$ 4,941

note 7

Mortgages Payable

Mortgages payable bear interest at rates ranging from 3.00% to 8.00% (weighted average rate of 6.13% as at December 31, 2003; 6.21% as at December 31, 2002) and mature between 2004 and 2017. All interest rates are fixed for the term of the respective mortgage with the exception of two mortgages totalling $15,662; the first bears interest at the 30-day Bankers' Acceptance rate plus 1.00%, the second at the then-prevailing prime lending rate less 0.75%; the rates are reset monthly. First and second charges on ResREIT's interests in real property investments have been pledged as collateral security for the mortgages.

Minimum future principal payments are as follows:

2004	$	22,014
2005		22,348
2006		50,588
2007		61,393
2008 and thereafter		265,131
	$	421,474

Bank Loan Payable

note 8

ResREIT has a revolving line of credit in the amount of approximately $44,500 for acquisition and operating purposes, bearing interest at the Bankers' Acceptance rates of 2.85% and 2.94% plus the stamping fee of 1.35% as at December 31, 2003, with a maturity date of May 30, 2004. Second mortgages on three properties and a third mortgage on one property have been pledged as collateral security for the line of credit. The principal amount and any unpaid interest are payable on the maturity date.

At year end, ResREIT has utilized $30,957 of its $44,500 line of credit (including letters of credit totalling $1,957). Included in the bank loan balance is $774 (December 31, 2002 - $168) in bank overdraft.

Units Issued and Outstanding

note 9

The number of units issued and outstanding is as follows:

	2003		2002	
	UNITS	$	UNITS	$
Balance, beginning of year	**26,777,177**	**266,166**	25,868,458	255,961
Options exercised	**202,100**	**2,099**	652,100	6,607
Units issued under Distribution Reinvestment Plan	**163,742**	**2,397**	101,561	1,352
Units issued under Unit Purchase Plan	**33,336**	**498**	155,058	2,246
Units cancelled under Normal Course Issuer Bid	**(1,600)**	**(21)**	Nil	—
	27,174,755	**271,139**	26,777,177	266,166
Loans receivable from employees and Trustees				
Balance, beginning of year	**Nil**	**(1,945)**	Nil	—
Issued during the year	**Nil**	**(498)**	Nil	—
Repayments during the year	**Nil**	**386**	Nil	—
	Nil	**(2,057)**	Nil	—
Balance, end of year	**27,174,755**	**269,082**	26,777,177	266,166

Under the unit option plan (the "Plan"), ResREIT may grant options to its Trustees, directors, officers and employees and the general partner of the Property Manager for up to 1,967,000 units. Under the Plan, the exercise price of each option equals the market price of ResREIT's units on the last trading date preceding the date of the grant and each option's maximum term, as approved by unitholders at ResREIT's annual general and special meeting held on June 5, 2001, is the close of business on the first business day following the fifth anniversary of each vesting date. 20% of the optioned units are

exercisable during the year in which they are granted, and the balance of the optioned units is exercisable as to 25% in each of the following four years.

A summary of ResREIT's unit option activity for the years ended December 31, 2003 and 2002 is presented below:

	2003		2002	
	No. OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	No. OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Options outstanding, beginning of year	**487,500**	**$ 11.21**	1,155,400	$ 10.63
Options granted	**Nil**	**—**	Nil	—
Options exercised	**(202,100)**	**10.39**	(652,100)	10.13
Options cancelled	**(800)**	**13.56**	(14,000)	12.88
Options expired	**(2,000)**	**14.76**	(1,800)	14.23
Options outstanding, end of year	**282,600**	**$ 11.77**	487,500	$ 11.21
Options exercisable, end of year	**244,400**	**$ 11.33**	324,600	$ 10.87

The following table summarizes information on unit options outstanding at December 31, 2003:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE	NUMBER	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE
$ 10.00	100,500	2.14		100,500	
$ 11.00	94,000	2.74		94,000	
$ 13.56	11,600	5.29		4,400	
$ 14.76	76,500	4.98		45,500	
	282,600	3.24	$ 11.77	244,400	$ 11.33

note 10

Distributions and Net Income Per Unit

ResREIT makes distributions to unitholders on a monthly basis on or about the 15th day of each month, other than January, and on December 31, in each calendar year. The Declaration of Trust provides that ResREIT will distribute to unitholders on an annual basis no less than the greater of (a) the income of ResREIT calculated in accordance with the *Income Tax Act*, and (b) 80% of the income of ResREIT calculated in accordance with Canadian generally accepted accounting principles, excluding gains and losses from the disposition of real property and before any deduction for amortization of income-producing properties and prepaid rents, such amount which is available to be paid by ResREIT in any year being the "Distributable Income".

ResREIT distributed approximately 89% of its Distributable Income (2002 – 86%) during the year with a view to reducing the ratio to approximately 85% in 2004.

For the year ended December 31, 2003, ResREIT distributed $28,813 to its unitholders (2002 – $27,849), comprised as follows:

	2003	2002
Taxable to unitholders as other income	**31.86%**	30.63%
Tax deferral to be deducted from adjusted cost base of individual unitholders	**68.14%**	69.37%
	100.00%	100.00%

For the year ended December 31, 2003, ResREIT made distributions to its unitholders, of which 31.86% is taxable to unitholders as other income, as follows:

MONTH	RECORD DATE	PAYMENT DATE	DISTRIBUTION PER UNIT	TAXABLE PORTION PER UNIT (31.86%)	NON-TAXABLE PORTION PER UNIT (68.14%)
January	January 31	February 15	$ 0.08750	$ 0.02788	$ 0.05962
February	February 28	March 15	0.08750	0.02788	0.05962
March	March 31	April 15	0.08750	0.02788	0.05962
April	April 30	May 15	0.08750	0.02788	0.05962
May	May 30	June 15	0.08750	0.02788	0.05962
June	June 30	July 15	0.08750	0.02788	0.05962
July	July 31	August 15	0.09000	0.02867	0.06133
August	August 29	September 15	0.09000	0.02867	0.06133
September	September 30	October 15	0.09000	0.02867	0.06133
October	October 31	November 15	0.09000	0.02867	0.06133
November	November 28	December 15	0.09000	0.02867	0.06133
December	December 19	December 31	0.09000	0.02867	0.06133
Total distributions paid			$ 1.06500	$ 0.33930	$ 0.72570

The following tables summarize the calculations of basic and diluted net income per unit:

2003	NET INCOME (NUMERATOR)	UNITS (DENOMINATOR)	NET INCOME PER UNIT
Basic net income per unit			
Net income available to unitholders	$ 17,090	26,858,027	$ 0.636
Effect of dilutive securities:			
Options	—	78,828	
Unit Purchase Plan units	—	3,697	
Diluted net income per unit			
Net income available to unitholders and assumed conversions	$ 17,090	26,940,552	$ 0.634

Options to purchase 17,600 units at an exercise price of $13.56 were outstanding during the first quarter of 2003 but were not included in the computation of diluted net income per unit because the options' exercise price was greater than the average market price of the units. The options, which expire in September 2006 to September 2010, were still outstanding at the end of 2003.

Options to purchase 78,500 units at an exercise price of $14.76 were outstanding during the first and second quarters of 2003 but were not included in the computation of diluted net income per unit because the options' exercise price was greater than the average market price of the units. The options, which expire from December 2006 to December 2010, were still outstanding at the end of 2003.

Units issued under the unit purchase plan totalling 100,036 at a purchase price of $14.76 were outstanding during the second quarter of 2003 but were not included in the computation of diluted net income per unit because the units' purchase price was greater than the average market price of the units. The units were still outstanding at the end of 2003.

2002	NET INCOME (NUMERATOR)	UNITS (DENOMINATOR)	NET INCOME PER UNIT
Basic net income per unit			
Net income available to unitholders	$ 19,576	26,491,569	$ 0.739
Effect of dilutive securities:			
Options	—	160,916	
Diluted net income per unit			
Net income available to unitholders and assumed conversions	$ 19,576	26,652,485	$ 0.734

Options to purchase 78,500 to 83,500 units at an exercise price of $14.76 were outstanding during the second, third and fourth quarters of 2002 but were not included in the computation of diluted net income per unit because the options' exercise price was greater than the average market price of the units. The options, which expire from December 2006 to December 2010, were still outstanding at the end of 2002.

note 11

Income Taxes

ResREIT is taxed as a Mutual Fund Trust for income tax purposes. Pursuant to the Declaration of Trust, ResREIT is required to distribute its income for income tax purposes each year to its unitholders to such an extent that it will not be liable for income tax under Part I of the *Income Tax Act*. Therefore, no provision for income taxes is required on income earned by ResREIT. A unitholder is required, pursuant to the *Income Tax Act*, to include when computing income for tax purposes in each year the portion of net income and net taxable capital gains of ResREIT paid or payable to the unitholder in the year that ResREIT deducts in computing its income for tax purposes. No capital gains have been realized by ResREIT since its inception, as no capital assets have been sold.

Based on ResREIT's distribution policy, the amount distributed to its unitholders in a year may exceed its income for tax purposes. On its Trust tax return, ResREIT claims the maximum capital cost allowance available in computing its taxable income. Historically, ResREIT's amortization for accounting purposes is lower than the tax capital cost allowance, which results in a tax deferral. Deductions claimed by ResREIT for income tax purposes exceeded the corresponding amounts recorded in its financial statements by $7,909 (December 31, 2002 – $11,047). Unitholders' distributions in excess of ResREIT's income for tax purposes are not included in the unitholders' income for the year – this portion is considered a tax deferral. The tax-deferred portion is deducted from the adjusted cost base of the unitholders' units of ResREIT. When the units are sold by the unitholder, a capital gain or loss will be realized and included in income of the unitholder at the prevailing inclusion rate.

There are unrealized capital gains and losses accruing in ResREIT with respect to its capital assets, in the form of income-producing properties or prepaid rents, which may result in a future tax liability to the unitholders. Upon the disposition or deemed disposition by ResREIT of a capital asset, a capital gain and recapture of capital cost allowance will generally be realized to the extent that the proceeds of disposition exceed the adjusted cost base.

The cumulative net book value of ResREIT's assets for income tax purposes as at December 31, 2003 is $41,547 (December 31, 2002 – $34,753) less than the amounts recorded in the balance sheet as at that date.

Property Management

note **12**

ResREIT entered into an amended property management agreement (the "management agreement") with Greenwin Property Management II L.P. (the "Property Manager") to receive property management services. The initial term of five years, which would have expired on February 16, 2003, was extended to February 16, 2006.

Annual property management fees payable to the Property Manager are 3.25% of gross rental revenues from properties managed by the Property Manager on behalf of ResREIT on the first 10,000 rental suites, 3.125% of gross rental revenues on the next 2,000 rental suites and 3.0% of gross rental revenue on rental suites in excess of 12,000. During the year, ResREIT incurred property management fees of $4,295 (2002 – $3,933) pursuant to this management agreement.

In addition, a supervision fee is payable to the Property Manager for construction management services, at rates of approximately 4% to 5% of construction costs. During the year, ResREIT capitalized supervision fees of $257 (2002 – $206) paid to the Property Manager.

Two Trustees of ResREIT exercise control of the Property Manager.

Trust Expenses

note **13**

PricewaterhouseCoopers LLP ("PwC") has served as the independent auditor of ResREIT since 1998. The aggregate fees expensed for audit-related services provided by PwC for the year ended December 31, 2003 were approximately $129 (2002 – $130). The aggregate fees expensed for other services, including tax-related services, provided by PwC for the year ended December 31, 2003 were approximately $70 (2002 – $33).

Risk Management and Fair Value

note **14**

ResREIT is exposed to financial risk that arises from the fluctuation in interest rates and in the credit quality of its residents. ResREIT manages these risks as follows:

INTEREST RATE RISK

ResREIT is exposed to interest rate risk related to its mortgages and bank loan. ResREIT minimizes this risk by ensuring the debt maturities are spread out over a number of years and that its portfolio contains debt with primarily fixed interest rates. The Declaration of Trust prohibits the total indebtedness of ResREIT, on a permanent basis, to be more than 60% of the gross book value of the assets of ResREIT unless a majority of the Trustees, in their discretion, determine that the maximum amount of indebtedness shall be based on the appraised value of the real properties of ResREIT. The Trustees have determined that the maximum indebtedness should not exceed 75% of the market value of each real property.

CREDIT RISK

Credit risk arises from the possibility that residents may experience financial difficulty and be unable to fulfill their lease commitments. ResREIT mitigates this risk of credit loss by ensuring that its mix of residents is diversified and by limiting its exposure to any one resident. Thorough credit assessments are conducted in respect of all new leasing.

FAIR VALUE

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The bank loan and two mortgages bear interest at variable rates and, therefore, are considered to approximate fair market value.

The fair values of mortgages payable and loans receivable are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair-value estimates are not necessarily indicative of the amounts ResREIT might pay or receive in actual market transactions. Potential transaction costs have also not been considered in estimating fair value.

The fair value of mortgages payable as at December 31, 2003 is $442,766 (2002 – $391,050). The fair value of loans receivable as at December 31, 2003 is $1,869 (2002 – $1,823).

note 15 Commitments

LAND LEASES

Three of the properties have land leases with various expiry dates between March 31, 2045 and March 31, 2070. Generally, each lease provides for a nominal annual rental and an additional rental calculated from the results of property operations. Minimum annual rentals for the next five years under these leases, exclusive of participation payments, are as follows:

2004	$	733*
2005	$	758
2006	$	773
2007	$	773
2008 and thereafter	$	773

*Rental payments under one land lease will be renegotiated in 2004 under the terms of the land lease.

note 16 Segmented Disclosure

Substantially all of ResREIT's assets are in, and its revenue derived from, the Canadian residential real estate industry segment.

note 17 Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

Unitholder Information

Officers and Managers of ResREIT

DINO CHIESA
PRESIDENT & CHIEF EXECUTIVE OFFICER

MAURICE KAGAN
CHIEF FINANCIAL OFFICER & SECRETARY

JASON LESTER
EXECUTIVE VICE PRESIDENT

MARCIA FRANKLIN
CONTROLLER

LAURA HOLLAND
ASSET MANAGER

ROBIN LAWDER
DEBT ADMINISTRATION

Auditors

PRICEWATERHOUSECOOPERS LLP

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Property Web site: www.resrent.com
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Unit Listing

Toronto Stock Exchange
Stock trading symbol: REE.UN

Annual Meeting

May 26, 2004, 10:00 am
TSX AUDITORIUM
THE EXCHANGE TOWER
130 King Street West
Toronto, Ontario

DISTRIBUTIONS*

CENTS PER UNIT

QTR	2003	2002	2001	2000	1999	1998
1st	**26.25**	26.25	25.50	24.75	21.70	7.82
2nd	**26.25**	26.25	25.50	24.75	22.50	17.51
3rd	**27.00**	26.25	25.50	25.25	24.75	18.67
4th	**27.00**	26.25	26.00	25.50	24.75	19.47
Total	**106.50**	105.00	102.50	100.25	93.70	63.47

**Each month's distribution was paid on the 15th day of the month following with the exception of December's distribution, which was paid on December 31.*

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ResREIT